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East Europe SUPPLEMENT

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Data on Serb Army, Underground Posts in Bosnia
94BA0203A Belgrade POLITIKA in Serbo-Croatian
27 Feb 94 p 12

[Article by Miroslav Lazanski: "From Grbavica to the Serb Pentagon"]

[Text] An ordinary gray telephone on a small black table, a poor overheated room in a squat private house in the settlement called Grbavica in the Serbian section of Sarajevo. People are waiting patiently around the telephone to call their friends and relatives on the other side of the front, in the Muslim section of Sarajevo. The telephone represents life, hope and anxiety, and it is the only line for direct dialing of the number unless it has been changed or the line is down, and it is located in the room of the Exchange Commission. The lads in camouflage uniforms are also here: Rajko Sforcan, Slavisa Tusevljak and Dragan Divcic, all members of the commission. What dramas they have witnessed in these two years of war! How many human destinies have been recited in the room with the gray telephone on the little black shelf...

Grbavica and Vrace, which are Serb sections of Sarajevo, seem ghostly in the twilight. Broken windows, buildings riddled and wounded by shells and shrapnel, lights flickering behind drapes, a stray dog here and there, silence in which one can hear the whistle of the sniper bullet.

And in some parts of Sarajevo there are not only private bordellos, both voluntary and involuntary, and private prisons, but there are even private cemeteries. For 20 to 50 marks the professional killers will murder anyone, and to prove their rating as 'bad guys' they bury their victims in their own orderly private cemetery. It is an open and ongoing competition, and various Celos, Josos and Musos are masters of the life and death of innocent civilians.

The "Comanche" Bunker

The Lukavica Garrison is a forward command post of the Sarajevo-Romanija Corps of the Army of the Srpska republic. Maj Gen Stanislav Galic, that corps's commander, lives here at a crowflight's distance of 400 meters from the Muslim positions on Mojnilo Hill, but that does not disturb him very much. His two bodyguards, military policemen, have the coldest miens the author of this article has seen on any battlefield in the world: neither smile nor grimace, no talk, no questions, no answers. Ice and only ice, so that the atmosphere becomes unpleasant. General Galic, fortunately, is a sociable fellow who knows what the media can do. Capt 1st Class Predrag Glusica, a mechanical engineer from Sarajevo who has spent three years living and working in Chicago, is also here as his officer for finance, physical inventories and supply. He is actually the financial genius of this corps, and he goes right to the first line of combat.

That front line has somehow been pushed into the background in the media, so that members of the crew of the Comanche Bunker on Zlatiste, that is, Babin Zub, emphasize that there is not a single regular army officer among the fighting men in that area; they are all reserve officers. Mladen Popovic, Novica Skrba, Dragisa Tusevljak, Vladimir Skrba, Milutin Trifkovic and Nevenko Divcic,

members of the combat team of the Comanche Bunker, are only 50 meters from the Muslim positions. "We exchange shouts with the Muslims every day, both they and we have enough of war. Half an hour ago a Muslim came to have coffee with us. We invited him. Now he just keeps hanging around," the "Comanches" say.

The bunker was improvised from corrugated sheet metal, bricks, wood, small drums, earth and logs. Inside there is a tin heater, fire and moisture. Three beds, four chairs, automatic weapons and rifles with telescopic sights on the walls. Only the weapons are clean and shiny.

"We spend one day, all 24 hours, on position, the next day we go to nearby houses to rest," they say. They are all from Sarajevo or environs. What is the food like? Bad, couldn't be worse. "We have not seen meat for five months, nor, by God, have we seen our defense minister visiting the front lines. Our teeth are going bad, falling out, our vision is failing because of the poor diet, but what can you do, we know that this is war, and there is no other way."

A Serbian Pentagon Underground

The "Comanches" squat in their bunker, the tin heater roars with the wet wood, the observers strain their eyes at the loopholes and ramparts, staring into the darkness. The dark vilayet of Bosnia...

Part of the 4th Battalion of the Sarajevo-Romanija Corps is in a little wood a bit further on from Zlatiste. An elite unit of the Army of the Srpska republic. Its commander is Maj Radomir Kojic, height two meters, weight 95 kilograms. When he talks to the officers and men of the French battalion that is part of the UNPROFOR [UN Protection Force], the French get an inferiority complex, since Maj Kojic is one of the best commandos of the Serbian army in Bosnia, a participant in the most difficult missions and operations, always in the front ranks. The French know that, and that is why they respect him.

To be sure, they have no choice, since they have come from hot Africa, from Chad, to icebound Jahorina, where Maj Kojic washes with snow, naked to the waist, and the French wear bulletproof vests even when they go to the toilet. As a matter of fact, as soon as it gets a bit 'thick,' the French flee to Kojic for his care and protection, and he receives them and looks at them as a snake does a frog.... At least for the present.

The deadline for the NATO ultimatum has passed, the Army of the Srpska republic is nevertheless still on the alert. False positions are being built, the real ones are being fortified. The UNPROFOR has already lodged an official protest because the Serbs are building false positions.

"It is up to you to distinguish the real ones from the false ones," the Serbian side replied. In this game of one-upmanship and electronic surveillance NATO is especially monitoring the activity of the general staff of the Serbian army, which has its central post in the hills of eastern Bosnia. This is actually an underground command complex that dates from the time of the former JNA [Yugoslav People's Army], the army command post and headquarters for the Supreme Command of the former Yugoslavia in case

of war. It is all underground, in the hills, resistant even to the shocks of atomic bombs up to 50 kilotons, everything is completely self-sufficient and automated. The people who live in that underground city can be out of touch with the outside world for as long as six months, that is the extent of their stocks of food, fuel and ammunition.

There is everything under the sun in that underground command post: dormitories, a kitchen, a mess hall, a storeroom, offices, an operations center, a meeting room, a hospital, sanitary facilities, a computer center, a tangle of corridors, steel doors operated hydraulically, special tunnels and camouflaged entrances, filters or ventilation and kilometers of cable and pipe. The systems of communications from this command center of the Army of the Srpska republic cannot be jammed unless the site is attacked with 50-kiloton atomic bombs. Communications have been interrupted twice, when the Serbian side was simulating a nuclear attack: on 7 August 1992, lasting 35 minutes, and on 16 June 1993, lasting 15 minutes. Even the NATO experts were immediately wondering: Why has the Serbian Pentagon gone silent?

Swearing-in Ceremony of First Homeguard Regiment

94P20544B Split SLOBODNA DALMACIJA
9 Mar 94 p 26

[Article by B. Markota: "The Oath of the Homeguards"]

[Text] Posusje—The First Homeguard Regiment of the Croatian Defense Council [HVO] has sworn a solemn oath in Posusje. High-ranking officials of the Croatian Republic of Herceg-Bosna, representatives of the chief of staff of the HVO and the Tomislav Area Corps, as well as unit officers and commanders were present at the swearing-in ceremony.

Following the ceremony, the commander of the First Homeguard Regiment, Colonel Ante Kovac, addressed the members, discussing the wartime activity of Posusje units and their role in the defensive combat. Herceg-Bosna Defense Minister Vladimir Soljic, Chief of the Political Section of the Herceg-Bosna Defense Ministry Ignac Kostroman, HVO Brigade Commander Vice Vukojevic, President of the Posusje Municipality HVO Velimir Jukic, and HVO Major General Milivoj Petkovic congratulated the members who were sworn in. Brother Marinko Leko gave the benediction to the members of the homeguard regiment.

Status of Srpska Republic Economy

94BA0211A Belgrade POLITIKA in Serbo-Croatian
5 Mar 94 p 14

[Article by Dusan Kecman: "The Krajina Economy Is Surviving"]

[Text] Banja Luka, 4 Mar—The Krajina economy is surviving, although on the average only one-fifth of the prewar capacity is in use. Surrounded by war, with a large portion of the labor force at the front, with sanctions, hyperinflation, and—in the last two months, with no payments being made, a majority of the firms in Srpska republic (formerly Bosanska Krajina) have been brought to a point where they

are producing only just the amount of goods necessary to cover the payroll and maintain equipment, since by working more than that they are only producing losses.

Nevertheless, under these conditions, when all production has not been put on a war footing, and when a state of war has not been officially declared, the people of Srpska republic, like the Serbs in the West, accustomed as they are to troubles and various shocks, are not inert. On the contrary, businessmen are displaying awesome energy and resourcefulness. Raw materials are being procured in almost all parts of the world. The extent of their success in trade with the world is indicated by how well stores and open-air markets are stocked here, not just by the assortment of products in the economy.

Food Industry the Leader

You can find everything in the stores here, from kiwis, bananas, oranges, and cherries to Italian furniture and Japanese television sets in all makes and sizes. Twice the output heretofore is expected in the first half of the year, when payments with the Federal Republic of Yugoslavia resume. This was explained by Sveto Mudrenovic, president of the chamber of commerce.

"Our own hyperinflation and the explosion of inflation in the FRY [Federal Republic of Yugoslavia] and the absence of payments for the last two months have been an obstacle to survival of the economy here. We expect that the resumption of payments with the FRY and the restraint of inflation will increase production by at least half of what it is at present and then an even larger growth," Mudrenovic says, explaining that the economy has survived in spite of the wartime conditions.

"So far the food processing industry has recorded the greatest success under these wartime conditions, since in this area it has sufficient raw materials coming in, and there is also a large market here. The largest processor here is the Banja Luka Dairy, which has an output of between 30,000 and 35,000 liters of milk per day, in addition to well-known processed products like the famous Trappist cheese and other products. Then come Vitaminka, which also is utilizing capacity at slightly more than thirty percent, and Fruktona," Mudrenovic said.

Businessmen there do not want to talk in detail about all the places their exports are going to, ranging from Greece to England. Although a surplus of livestock has been recorded at the moment in Srpska republic, and prices are falling, the food manufacturing industry, represented by Levita in Gradiska, does not mind at all processing the famous purebred meat hog from Nova Topola, the "Topola Landrace," which is raised on the farm there.

Exports in Spite of the Sanctions

The red-streaked bacon from Levita and other products meet world standards. Rich Lijevece, with its exemplary farmers, is feeding an entire region, about 60 percent of the Srpska republic, which is the size of Krajina territory.

As a matter of fact, in now the fourth year of war on the territory of the former Yugoslavia, the main support for survival in these parts has been food production from

Lijevece. Although capacity has been cut back, the economy gets by in various ways; the textile industry, for example, has been operating rather successfully. The firm 22. decembar has been maintaining 100 percent of its output, since it is making uniforms, but also other things in demand on the market. Blik of Banja Luka, Svila of Celinak and Medjugorje of Glamoc, which makes sweaters and T-shirts, are adjusting well. The leather industry is operating at one-third capacity, exporting even to Switzerland, and the wood manufacturers are supplying their customers in Europe. Thus the forest products firm Kljuc is unable to make Cherry dining room sets for the domestic market, since they are exported to England, with difficulty at the moment it is true, but the demand for this dining room furniture is still keen, although its price ranges between 3,000 and 5,000 German marks. This is well-designed furniture made from the highest-quality wood, taken from Srpska republic forests. The forest products firm Sapa in Sanksi Most, Borja in Teslic and Radnik in Gradiska also have quality products, and there is an extremely high demand for products of the furniture factory in Gornji Podgradci, which is on the slopes of Kozara, not far from Gradiska. "Next year we celebrate the 140th anniversary of woodworking and furniture manufacturing in this region," says Lazo Sinik, director of the woodworking factory in Gornji Podgradci. "The first water-driven sawmill in these parts was set up back in 1855, and soon there was one driven by steam. We are woodworkers and furniture makers with a long tradition."

Payments to the Rescue

In Gornji Podgradci they make solid wood furniture and dining room sets (tables and chairs in various shapes and designs), mainly from oak [*Q. sessiliflora*] from the slopes of Kozara and some English oak from the plains, as well as beech from the slopes of Kozara and Grmec, whose quality ranks very high in Europe.

"While the war was going on, we won the Gold Plane, which is the first prize at the International Furniture and Equipment Fair in Leskovac, in May of last year for the Petronija solid oak set of table and chairs," Sipik said, explaining why there is such a demand for the products from Gornji Podgradci. This factory also makes oak parquet flooring and saws lumber for the market. Within proximity of the Kozara forests and the Siavonian plains, it makes furniture of interest to customers abroad, where now it is difficult to export because of the sanctions.

Incel of Banja Luka, according to Milorad Serval, marketing director, is at present making toilet paper and other products and selling them from Benkovac to Vrsac and Leskovac, but only as much as is ordered, they are not

operating at full capacity, since they lack imported sulfur and other ingredients, as well as domestic pulp wood. Serval says that hyperinflation and the suspension of payments have cut production to the minimum, but a shortage of the new dinars was felt on the very first day payments were resumed with the FRY. There are not many Avrams, and merchants here are raising prices of their products, as though their intention is to have marks "circulate" from hand to hand in gray payment, in order to purchase goods abroad for foreign exchange, while the dinar is being held back for use to meet minimum needs and obligations. The situation here is the reverse of that in Serbia, where prices dropped when the Avram appeared, while in Srpska republic they have risen.

"The main thing is that payments are possible. This is salvation for business people here," says Vukasin Basic, director of Veleprehrana in Banja Luka. "Now our economy also has a chance to do business normally."

One other piece of good news is coming in from the Srpska republic economy. On Saturday Elektrobosna in Jajce went into operation; it makes ferrosilicon, a strategic material used in the raw state in Smederevo and Niksic, that is, in the steel mills there, to make special steel alloys. Incidentally, before the war silicon processed from ferrosilicon was imported at \$55 per kilogram, while a kilogram of ferrosilicon was being exported for a dollar.

One gets the impression that wartime conditions have altogether 'purged' the Srpska republic economy of its inert bureaucracy, that the situation has now brought new people into the economy who are nimble and persistent, who do not have the feeling that "some things just cannot be done," people who know what they want and, most importantly, who can make on-the-spot decisions.

This kind of economy, one gets the impression, will be very important and successful on the territory of the former Yugoslavia when the war is over and the sanctions are removed.

New Dinar Arrives in Banja Luka

94P20536B Belgrade POLITIKA in Serbo-Croatian
3 Mar 94 p 9

[Article by D.K.: "New Dinar Arrives in Banja Luka"]

[Text] A large armored police van with extra security unloaded for several hours at the entrance of the Payment Operations building of the republic of Srpska in downtown Banja Luka, thus marking the beginning of payment operations between this Serbian land and the Federal Republic of Yugoslavia. That is to say, a "significant" quantity of Yugoslav dinars in banknotes and coins was transported by this van from Belgrade.

Dismissal of Krajina's General Discussed*94BA0204B Belgrade VREME in Serbo-Croatian
28 Feb 94 p 19*

[Article by Filip Svarm: "In the House of the Three Milans"]

[Text] Mile Martić, the newly elected president of Krajina, has appealed to the Constitution and legal powers and removed Maj. Gen. Mile Novaković, heretofore the commander of the general staff of the Serbian army of Krajina (SVK). Martić appointed to that post Milan Čeletković, whom he previously promoted to the rank of general. Few people know the background of this decision. It is worth mentioning that a few days earlier diplomatic circles in Belgrade showed a sudden growth of interest in Gen. Novaković. Specifically, who were all those who took note and passed on his statement, routinely to say the least, that "an attack on the RS [Srpska republic] signifies at the same time an attack on the RSK [Serbian republic Krajina]," and what could it mean?

Two Unknowns

Although he has been at the center of Krajina military and political life for quite some time now, Gen. Novaković is not particularly well-known to the general public. As an officer in the JNA [Yugoslav People's Army], he served in Zagreb, then he waged war in Banja. With the rank of colonel he commanded "Tactical Group 2" in Operation Corridor, and he distinguished himself with the breach at Debar-Kula. After the Maslenica action of the Croatian Army [HV] on 22 January 1993, Gen. Novaković began to wage war in the second half of the Serbo-Croat conflict. However, things have not really been going well for him, especially not with the Croatian offensives in Medak pocket. Although the army that he commanded displayed maximum readiness for reprisal (shelling Karlovac, Zadar, Sisak, and even the suburbs of Zagreb—Lucko), this was a political decision, not a military one. Especially since all of that had no direct consequences regarding the Croatian thrust into the villages under Velebit, nor regarding the fact that many small towns in Krajina were also shelled in return. Because of all that the Krajina Radicals like David Rastović have called for Novaković to be brought to account. The thesis that Krajina is actually governed by a military junta accountable to no one was in the same context. Gen. Novaković evaded specific answers and political explanations as well as he could. But since this was the time of a fierce showdown between Martić and Goran Hadžić, his refusal to appear in the RSK Assembly in Plitvice, where debate of the defeat in the villages under Velebit was inevitable, was interpreted as siding with Hadžić. It is difficult to judge the extent to which the general staff commander at that time actually came into conflict with the head of the Krajina police at that time. It is evident that both signed the cathartic letter of support to Slobodan Milošević when the concubinate of Socialists and Radicals collapsed.

If little is known about Gen. Novaković, still less is known about his successor, Gen. Čeletković. Born in the village of Mokrin, near Kikinda (in a family of colonists, it is

assumed), he was also an active officer in the JNA. The information service of the SVK reports that he took part in all the significant battles in western Slavonia and in operations in the Sava Valley section of Bosnia (Derвента and Bosanski Brod). Before his appointment to commander of the SVK general staff, he held the post of commander of the 18th Corps of that same army. What little unofficial information could be obtained about Gen. Čeletković indicates the following: He is an operative, an officer who gets around (he has held posts in the JNA and the army of the Srpska republic), and he has been in the SVK only since 1993.

The Bridge on the Sava

Martić's decree to make the change in the top military leadership of his self-proclaimed state has echoed like thunder. Since there was no substantiation except the call for a discretionary assessment of the chief of state on the basis of the constitution, only speculations remain.

Gen. Novaković and his team have gained a reputation as negotiators. That is, following the failure of the secret Krajina-Croat negotiations in Norway, there were a number of separate truces at the level of military delegations between various parts of Krajina and Croatia. On those occasions it was impossible to avoid granting certain guarantees to the other side and accepting certain obligations to the UNPROFOR [UN Protection Forces], which was the intermediary. The inspiration for this expedient came from Belgrade, since the time had come for a process of normalization of relations between the Croatian and Serbian regimes. The Krajina people, however, frightened even earlier that they would be "sold out," (this is illustrated by the success of the Krajina SDS, Milan Babić and the SRS [Serbian Radical Party] in the election there), showed that they had a mind of their own. Especially since even the subsequent visit of Zeljko Simić to Zagreb had no calming effect at all. As Milošević's handpicked man, Martić was given the task of refuting the doubts and avoiding unfavorable agitation. He thus visited Dr. Karadžić in Pale, and showed as a guest much greater belligerence on behalf of Serbian unity than his host concerning the NATO ultimatum; it was even so great that the leader of the Bosnian Serbs had to relativize it. However, the ultimatum also weakened Belgrade's negotiating position with Zagreb to a fair extent. There was, then, a need to show Dr. Tuđman (and incidentally the UN as well) that the Serbian president is still making the rules of the game himself, at least in Croatia. The choice fell on the bridge over the Sava at Nova Gradiska. Two objectives were achieved by taking control of that border crossing (when the RSK ministry of internal affairs chased away members of the Nepal battalion of the UNPROFOR): entirely unlimited communications between the Srpska republic and Krajina in that region (intimidation of the UN with the threat of reprisals) and demonstration of 'sovereignty' vis-a-vis Croatia (a demonstration that Martić must also be taken into account as Serb-Croat relations are normalized).

It seems that Gen. Novaković was not inclined toward that operation. That is, he probably knew better than anyone how much stronger the Croatian Army has become in the

meantime and how large a role the UNPROFOR has played in the fragile truces which he concluded, although it is possible that he was denied clear instructions. It is no wonder, then, that Serb-Croat hostilities in the northern Dalmatian theater escalated once again with the crisis over the bridge on the Sava, nor indeed that there should have been threats from the "insulted and surprised" peace-keeping forces that they would take back control of the bridge even if it takes force. It is assumed, moreover, that regardless of his belligerent statements concerning the NATO ultimatum, in the light of all that Novakovic was not prepared to aggravate relations on domestic terrain. When there is big trouble, he is not particularly charismatic at all. That is why he was removed, and his place has been taken by a man who carries out orders without question, but who knows quite well what is going on. One thing is certain: Novakovic, involved in negotiations up to his neck, did play his role. Just like Veljko Dzakula at one time, he was unable to avoid becoming entangled in the resolution of specific problems, forgetting that in these parts this is a matter for top-level policy and shrewd combinations. After all, it may be an accident, and then again maybe not, that "assumption" of control of the bridge at Nova Gradiska, just like Dzakula's first arrest in Japaga, near Pakrac, was entrusted to a man in whom Martić has confidence—Krstó Zarkovic.

General Visits Southern Battlefield Positions

94P20528C Split SLOBODNA DALMACIJA in Serbo-Croatian 5 Mar 94 p 56

[Article by A.M.: "Brigadier General Krpina With the Defenders"]

[Text] Dubrovnik—Drago Krpina, commander of the political section of the Croatian Army and deputy minister of defense, met on Friday with Dubrovnik-Neretva Zupanija [parish] head Jure Buric, Mayor Nikola Obuljen, and commander of the defense section for Dubrovnik-Neretva Zupanija Teo Andric.

On Friday, Brigadier General Krpina, in the company of southern battlefield infantry division commander Major Luksa Glavina, visited positions of the Croatian Army on the front line of the battlefield.

In the afternoon, Brigadier General Krpina, together with his adjutants, held a meeting with representatives of all the units deployed on the territory of the southern battlefield on the topic of reinforcement of guard brigades, the section for political activity in the southern battlefield reported.

Plans To Build 12 Ships for Russia

94P20528B Split SLOBODNA DALMACIJA in Serbo-Croatian 9 Mar 94 p 2

[Report by HINA: "Twelve Ships for Russia"]

[Text] Zagreb—Minister in the Government of the Republic of Croatia Zlatko Matesa received on Tuesday Leonid K. Krishtin, vice president of the Russian company Novoship of Novorossiysk, with his associates. On this occasion, the completion of a program to build 12 ships for

the Russian customer was discussed, the Office for Public Relations of the Government of the Republic of Croatia has announced.

The first ships under this program are in the process of being built in the Trogir shipyard, and construction of the remainder will be carried out in other Croatian shipyards. The program to build the ships for this customer, valued at \$306 million, is a part of the government program to restructure the Croatian shipbuilding industry and is conducted by the consortium of Croatian banks and enterprises headed by the INA enterprise.

Missile Ship Arrives in Dubrovnik

94P20528A Split SLOBODNA DALMACIJA in Serbo-Croatian 9 Mar 94 p 2

[Article by K. Sutalo: "'Dubrovnik' in Dubrovnik"]

[Text] Dubrovnik—A few days ago the missile ship Dubrovnik arrived for the first time in the port whose name it bears and from which it will sail for regular monitoring of the maritime borders of Croatia. This ship became the property of the Croatian Navy upon the withdrawal of the Yugoslav Navy from the repair institute in Sibenik, and, as Deputy Commander Ivan Vukovic told us, it was given the name Dubrovnik during the heaviest attacks on this town. Since then, this vessel participated in battles around Sibenik and in the Maslenica action when things were the hardest, Commander Miljenko Crljen said. "When the former Yugoslav People's Army was still on Vis and Lastovo islands, we used to defy it by sailing near Korcula," Crljen added, stressing the ship's cooperation with the Maritime Police.

Rebuilding of Peruca Hydroelectric Power Plant

94BA0210A Split SLOBODNA DALMACIJA in Serbo-Croatian 8 Mar 94 p 10

[Interview with Eng. Marin Vilovic by Toni Pastar; date and place not given—under the rubric of "Topical Interview"]

[Text] Aside from the Peruca Hydroelectric Power Plant being a military triumph of the Croatian Army [HV], which has driven out the Serb occupiers forever, it achieved another equally important victory—Croatian experts have managed to save the dam from self-destruction, which was the objective of the Serbian criminals who set explosive charges on it, and they have made great progress in their efforts to repair it. Although Peruca is within range of the battlefield, that is, within range of enemy artillery, the activity has not ceased since 28 January 1993, when the Serbs exploded the charges, and right now it has reached maximum intensity. We talked to Marin Vilovic, who heads the technical team of the HEP [Croatian Electric Power Industry] to repair the dam, about what has been done so far at Peruca and what still needs to be done to put the power plant in full service.

The same day when the Serbs exploded the charges on the dam, that is, on 28 January of last year, officials of the HEP, with the help of the HV and numerous others, began a fierce fight to prevent destruction of the dam, which was

extensively damaged by the charges that were detonated. This was the first case in the world of an earth dam like Peruca being damaged that way. At that point the objective was to release as soon as possible the water from the lake, which was full, to take the load off the dam, and to establish the extent to which the clay core had been washed away or lost its impermeability. The explorations began the very day after the explosion. Surveyors came to the dam, and they were followed shortly by the geophysicists and divers. Those exploratory operations were at the same time the first steps towards repairing the dam.

Rebuilding the Gallery

[Pastar] Have you completed the exploratory operations you began at that time?

[Vilovic] No. They are continuing, since everything we learn is useful in planning the project.

[Pastar] Following the Serbian demolition the Peruca dam was visited by numerous world experts on high dams who expressed their opinions and experiences. How useful was that?

[Vilovic] It was of course useful. Once we had the relevant indications of the extent of damage to the dam, we began working out alternative possibilities for repairing it. In June of last year we made a final decision among the twelve alternatives to replace the damaged flanks of the dam, where the explosions had caused the greatest damage, and to repair the damaged watertight core with a clay-concrete diaphragm.

[Pastar] This is a job that is still ahead of you. In early August of last year you began to repair the control gallery?

[Vilovic] Only when we had made the final commitment to the repair strategy did we begin to repair the control gallery, since the alternative chosen included that. Some of the alternatives did not envisage this.

[Pastar] When you began the work to repair the control gallery on 1 August, an announcement was made that the job in that section would be finished in four months?

[Vilovic] That deadline was envisaged only on the basis of certain assumptions. However, when we went into the gallery, we found that the damage was far greater. That is why the work has been going more slowly. The gallery on the right flank has been rebuilt almost entirely. Work is now being done on the straight section, in the lowest part of the gallery, and here the work is going somewhat faster.

[Pastar] A few days ago work began on the crown of the dam. What are all the things that will be done there?

[Vilovic] To be brief, from the standpoint of safety and operation, we will restore the dam to the condition it was in before the explosions. We have begun to remove the most damaged exterior parts of the dam. We will replace entirely the extensive area of the craters on the left and right flanks, and along the rest of the crown of the dam we will remove between five and 10 m from the crest. In those operations we will excavate and remove from the dam about 120,000 cubic meters of material, but considerably more than that will be returned to the dam.

The Waterproof Wall

[Pastar] As far as we understand, when you remove all that material from the crown of the dam, then comes the most important undertaking, making the diaphragm?

[Vilovic] Absolutely right.

[Pastar] What in essence is a diaphragm, and what is its function?

[Vilovic] This will be a clay-concrete wall 1 m thick placed between the flanks of the dam from the control gallery, which is at the very foot, all the way to the crown. The diaphragm will be elastic and waterproof and will entirely take over the function of the damaged clay core. Actually, that diaphragm will be built into the damaged core itself.

[Pastar] Will you be able to take advantage of experiences from elsewhere in the world in doing this?

[Vilovic] Peruca is the first case in the world of deliberate demolition of a dam like this, but not the first case of repair projects. In the United States alone a clay-concrete diaphragm has been used to repair the Mud Mountain, New Wadel, and Wister dams, and there have also been cases like this on other continents and even here in Europe. In any case, the actual making of the diaphragm is not too complicated, but it is done with very expensive equipment. We have had talks about this with the three best-known world firms with experience in this work. They are Solitanche in France, Bauer in Germany, and Rodio in Italy. Croatia also has a firm for jobs like this with a world reputation, Geotehnika in Zagreb.

[Pastar] When the beginning of work on the crown of the dam was officially announced, you said that by the end of this year the dam would be repaired to the level of 353 m above sea level. When will all that be done?

[Vilovic] We expect by the end of May to remove all the material from the damaged flanks and crown, so that in early June we will be able to start on the diaphragm. The job of laying the diaphragm must be done continuously, without interruption. We estimate that that will take about four months. There is no foreseeable reason why we should not reach the target of 353 m above sea level by the end of the year.

[Pastar] At that level it will be possible to use 70 to 80 percent of the previous capacity of Peruca's storage reservoir. When will the dam be entirely finished, when will the storage reservoir be in full use?

[Vilovic] Our ultimate goal is to guarantee the maximum capability of the storage reservoir. You see, even during the repair work to the control gallery, we are maintaining the storage reservoir at a level of about 330 m above sea level. And in the gallery work is now being done 25 m below the level of water in the lake. We expect repairs to the dam to be completed in the spring of 1995 and we expect the reservoir to fill with water in the summer of 1995.

[Pastar] Would it not have been simpler to remove the entire dam and build a new one on the site?

[Vilovic] In essence this will be a new dam. What you say would really have been simpler. However, in order to save

financial funds, we opted for a much more complicated undertaking, but in the end we will get the same result, a completely safe and functional dam.

A Power Giant

[Pastar] What will be the total investment in repairs?

[Vilovic] According to advance estimates, the entire repair will cost about 23,000,000 German marks. That sum includes the spillway on the left flank of the dam, which will be entirely rebuilt.

[Pastar] Will you have the money?

[Vilovic] It is not easy for Croatia to set aside that money under these conditions, but it must be done, since this is the only way of achieving lasting safety of the power supply to Dalmatia. The Cetina River is an electric power giant, and the Peruca Dam with its storage reservoir is the heart of it. That is why the money must be found.

[Pastar] Who are all those that have been involved in the repairs up to now?

[Vilovic] All the operations are being done according to the designs of Elektroprojekt of Zagreb, which has brought in other high dam experts in Croatia. The contractor repairing the control gallery is Konstruktor-Inzenjering from Split, which also got the contract for the work that has just begun on the crown. Geotecnika of Zagreb has also been hired, so far on the first phase of the exploratory work.

[Pastar] Mr. Vilovic, the dam is nevertheless within range of the battlefield, within range of Serbian artillery, which has targeted it more than once. Will the work continue unhindered in that regard?

[Vilovic] It is hard to say with certainty, but hope remains that there will be reason on the other side. They also know that this is exclusively a civilian economic project and that Croatia is determined to put the dam in full operation as soon as possible. High officials of the UNPROFOR [UN Protection Forces] have also seen that this is a civilian project, they were told that we were beginning the job, and they have certainly passed that on to the other side.

Budget for 1994 Sent to Parliament

94P20519A Zagreb VJESNIK in Serbo-Croatian
11 Mar 94 p 3

[Article by Drazen Jambrovic: "The Budget Must Not Be Expanded"]

[Excerpts] Zagreb—The success of the stabilization program depends on the approval of the state budget, which was adopted after several months of preparations and sent to the Parliament last week. The budget totals about 5.2 billion German marks [DM], DM1.5 billion more than in 1993. According to Prime Minister Nikica Valentic, this is a "firm budget that must not be expanded, not even by a dinar." To exceed the set parameters could endanger the stabilization efforts.

Firm budget limitations have been set to reign in very high public expenditures. Of the total DM5.2 billion, DM1.8 billion is devoted to pension payments, DM1.3 billion to health insurance, DM1 billion to local government expenditures. The total public expenditures amount to more than DM9 billion, or 50 percent of the GNP, estimated to be DM18 billion, including the "grey economy" and money transfers from abroad. According to Valentic, there is reason for alarm when total public expenditures surpass 50 percent of the country's GNP, even for a country at war. This is why expenditures and the budget must not be increased despite a series of justifiable requests. Saying that without increased production there is no chance of covering public spending, Valentic added that the government had taken certain steps in this direction in the areas of construction, shipbuilding, agriculture, tourism, and industry. [passage omitted]

Excise Taxes by 1 July

Excise taxes, special taxes on oil derivatives, alcohol, beer, nonalcoholic beverages, tobacco products, and imported cars will be introduced by 1 July. The tax reform continues with the introduction of the excise tax on six new products (coffee had already been taxed earlier). The next step is the introduction of the value-added tax. [passage omitted]

Czechs Continue Registering as Slovak Citizens

94P20465A Prague LIDOVA DEMOKRACIE in Czech
22 Feb 94 p 1

[Unattributed article: "Czech Citizens of Slovakia"]

[Text] By the end of 1993, approximately 43,000 Czechs had applied for Slovak citizenship. This year, additional applications, which are routinely processed by the Slovak Ministry of Interior, are being received. Those that come from the Czech Republic get preferential treatment. According to the ministry, two or three applications on the average arrive daily, and their processing takes approximately one month. Slovak authorities demand that applicants furnish their birth and marriage certificates, an extract from the crime register, and a certificate verifying their permanent residence in the Slovak Republic. Bratislava has so far not made available any statistics on the number of Slovaks who have, up to now, requested that their Slovak citizenship be supplanted by Czech citizenship.

Article Considers Risks of Klaus's Ideology

AU0803200694 Prague RUDE PRAVO in Czech
28 Feb 94 p 14

[Article by Zdenek Jicinsky: "The Risks Arising From the Ideologization of Vaclav Klaus's Points of View"]

[Text] How many Klauses do we actually have? And which is the real one? The pragmatic one, for whom—from the point of view of economic transformation—we have already crossed the Rubicon, from which it should logically ensue that the issue of a struggle over the nature of our social and economic system has, in essence, been resolved?

Or, the one who, a little later, at a seminar on the government's economic strategy in Prague on 4 February 1994 raised an admonitory finger: "The unfinished ideological dispute over the future of our social order will continue—one, under the slogan of consumer protection; two, under the slogan of environmental protection; three, under the slogan of protection for professional groups or chambers; and under other slogans. This dispute is taking place in the mass media and is there for all who want to see it explicitly, although it is camouflaged behind catchy phrases. The issue involves whether we are to have a truly free society and a free market or whether we are to have an interventionist, cooperative, neosocialist system that will lead us—albeit by more subtle means—into the same pitfalls as the former communist regime."

Klaus has accentuated this caustic tone and vocabulary very much in a number of his recent speeches. As a man who, in a relatively short period of time, has undergone extraordinary development and been transformed from a recognized economist and finance minister into the Czech prime minister and the most influential Czech politician, he has also learned to adapt his behavior and frequently proceed very pragmatically in practical policy. If recently, in the spirit of his ideology, he was again acting as a mentor to the Czech, and, in Davos, to the international public, then this was certainly intentional.

In view of the overall political situation, it seems—from his point of view—expedient to establish a clear and unequivocal strategy in the period prior to the approaching local and senatorial elections and, thus, to put the Civic Democratic Party [ODS] on the right track as the strongest political party and the main force in the government coalition. At the same time, a signal will also be given to the partners in the government coalition so that they do not forget who plays the leading role in it—both as a party and personally—and who, first and foremost, determines government policy.

Attacking the critics "from the right"—from CESKÝ DENIK and various organizations such as the Club of Non-Aligned Activists—who reproach the ODS and Klaus for deviating from the pre-election promises, for not implementing a genuine right-wing policy, for not fighting hard enough against the communist past, and so on is also a specific form of defense. This could also be a signal to the bulk of the ODS—where, in various contexts, it is apparent that his views and stances meet with disagreement—that he is still the leading personality in this party.

At the same time, the acerbity of his views is directed against the opposition indiscriminately. He is attempting to politically disqualify and discredit it by identifying it with the old communist regime or by attributing to it the intention to revive socialism in a new form. The attitude prevalent among the public at the moment is not as uncritical as it used to be, although his "moral wear-and-tear" is still relatively slight. His ill-considered and one-sided points of view on various foreign policy issues in particular are criticized quite openly in the press. There are various reservations within the governing coalition with regard to Klaus's statements. Therefore, it will be necessary to monitor how the public perceives his ideological confirmation of his strategy and what kind of practical consequences this will have in Czech politics.

Adversaries From the Third Way

Klaus, in all sorts of situations, categorically turns against the so-called third way and those whom he considers to be its advocates. He declares them to be the main adversaries in the endeavor to create a market economy. A very broad spectrum of people support this third way; almost everyone who disagrees with Klaus's concept that the free market is the basis and main instrument for dealing with all economic, ecological, and social issues belongs to it. So, he can indirectly proclaim himself to be the most conceptual and most consistent representative—and, undoubtedly, he feels this way—of the transition from the communist system to the market economy and a free society. This was also the spirit in which he addressed the international economic forum in Davos.

There he criticized Western Europe, among other things, for its statist thinking and for its prevailing ideas about a social welfare state, while just a few people realize that the state can only fulfill this function if its citizens sacrifice a considerable amount of their freedom.

I have cited these views expressed by Klaus to illustrate the ideological nature of his way of thinking. Klaus adjusts the

facts in accordance with his ideas so that he can more convincingly formulate his views. Klaus's ideology, however, is false knowledge. His ideas about a free market and a free society are implemented in virtually no European country. It is necessary to say the following: While Margaret Thatcher governed in Britain according to similar ideals, there was no economic growth there and even her resistance to the integrative processes within the European Community had unfavorable consequences for her country. This, however, ultimately caused her political downfall. The Czech Republic cannot be compared with the UK, either in terms of its economic and political power or in terms of its population and geographic position. The latitude for an isolationist position by the Czech Republic is much smaller.

A logical question arises in connection with these ideological, almost demagogically concluded formulations about the only correct method of transformation and the changes associated with it: Is any idea about economic transformation, apart from the one espoused by Vaclav Klaus, an example of this adverse third way?

R. Dahrendorf, whom perhaps even Klaus cannot regard as a crypto-communist and advocate of the "third way," wrote the following in his analysis of the potential for the development of the postcommunist countries in an open society: "Within the framework of the constitution of freedom, hundreds of paths lead forward, and they will all mix elements of economic policy and social reform in a way the purists will not like." He pointed out in this context that fundamentalism is more attractive than had been anticipated. "Fundamentalism may take on various forms, including nationalism, but, in each case, it deviates from the path toward an open society" (*Reflections on the Revolution in Europe*, page 144).

I am concerned that Klaus's economic fundamentalism—moreover, associated with a certain political nationalism—is diverting us from a path toward an open society; this view is borne out by recent Czech experience.

Oversimplified Condemnations of the "Welfare State"

Questions about how Czech society will develop in the future, and the kind of relations it will forge with its neighbors and the whole of Europe, and the answers the relevant political forces give, will be very important for the Czech Republic's future development and its standing in Europe. The way the Czech Republic views the complicated and contentious ramifications of the integrative processes in Western Europe, especially the European Union as its basis, will be particularly important in these relations.

Klaus's ideas about a free society and a free market along with his condemnation of the bureaucratized, etatized society in Western European countries with their "welfare states" are oversimplified. In this ideological form, they could hardly become the positive vision for the future development of Czech society, which Klaus often talks about. In this regard, his ideas are too one-sided and lack substance.

In Western Europe in recent years some people have been critical of the intolerable social burden associated with the

welfare state, a burden that has become a barrier to economic stimulation and motivation. It is a burden that continues to be intolerable, and not only in view of the economic recession. Those who want to alter economic and social policy—and it makes no difference whether they are social democrats or conservatives—are, however, very well aware that they cannot return to the stage preceding the evolution of the welfare state with its complicated system of sociopolitical relations and the institutions associated with them, a system that guarantees a way of life for society and, at the same time, does not endanger the principles of its arrangement.

This system of relations associated with a welfare state can, in any case, be altered and amended, but while maintaining its basic values and structures. It is strange that the concept of social justice, so reviled by Vaclav Klaus, is an element of the programs of all significant parties, parties of a social democratic and a conservative nature.

Fundamental legal acts, the constitutions of Western European countries, the International Agreement on Social, Economic, and Cultural Rights, and the European Social Charter have been an intrinsic element and manifestation of this development since World War II. No influential political forces are trying to abolish it and they do not treat it with disdain—as is customary in our country—as an undesirable "infestation" of the constitution by something that does not belong to it.

The government draft law on state employees, which strips them of their right to organize themselves in trade unions, is also an expression of this cold-shouldered attitude toward the Charter on Fundamental Rights and Freedoms. It is strange that right-wing oriented journalists consider the stipulations of the International Agreement on Social, Economic, and Cultural Rights and the conventions of the International Labor Office—which guarantee working people the right to organize themselves in trade unions and other rights—to be a negative consequence of socialist tendencies that, in their opinion, were broadly applied in Western Europe after World War II.

Views that the Czech Republic can develop quite separately and that it will not have to respect these main trends and rules of modern social and legal development (which is obviously what Klaus had in mind at the ODS assembly in Kopřivnice when he described the Czech Republic as a "country trying not to repeat the errors the advanced Western countries have made in their policy in recent years") are groundless. If they were, however, to become fact after all, this would not mean that the Czech Republic would avoid the mistakes made by the advanced Western European countries, but it would be a sad testimony to its economic and social decline and to its inability to economically advance itself. From these points of view, Klaus's ideological opinions could have directly and indirectly unfavorable domestic and international political consequences. The complaint made by the Czech trade unions to the International Labor Office against the Czech Government concerning the aforementioned issue is oddly reminiscent of the complaint that Charter 77 sent to this organization under the former regime about the violation

of various rights of the working people. I do not think this is to the Czech Republic's credit or that it will improve its international prestige.

Integration Is Not Only Economic

The same also applies to Vaclav Klaus's negative attitude toward integrative processes within the European Union associated with the Maastricht Treaty and the problems that currently exist inside the European Union. In this context, Klaus has been critical of the too high and unnecessary ambitions for a unitarian or almost unitarian concept of Europe. (As is his wont, he modified this issue, because integration within the European Union cannot be identified with unification and federalization is not unification). According to him, Europe's future does not depend on the existence and activities of multilateral European institutions, but on the quality and structure of the political, social, and economic system in the individual European countries.

It goes without saying that, following the collapse of the communist system and the Soviet empire, a new situation has arisen in Europe and new and previously unanticipated problems are cropping up from the point of view of the integrative processes in Western Europe. However, Klaus, in the grip of his economic reductionism and unilateral criticism, is overlooking certain political facts here that could have very serious repercussions for the Czech Republic.

Criticism of the shortcomings of the integrative processes within the European Union—in which, incidentally, Klaus is in no way original, because it is commonplace in Western European political circles—must not lead to neglect of the essential political chain of events. If the integrative process does not continue and the will for a common foreign and security policy does not increase, destabilization could spread throughout the former post-communist countries from Russia all the way to Western Europe, where the policy of power-wielding interests could again begin to be asserted and Germany could again become an uncontrollable power. Former FRG Chancellor H. Schmidt said in an interview with P. Glotz that it is in the interests of all of Germany's neighbors to integrate this huge state and that the political elite in all the states of Europe have a pressing interest in "trussing up Germany." This is, according to him, one of the important reasons for ensuring that, despite the current Maastricht crisis, European integration continues (*DIE NEUE GESELLSCHAFT* No. 1/1994, page 7).

No Czech politician, let alone the Czech prime minister, can ignore facts of this kind, because they are vitally important for the future fate of the Czech state and the Czech nation. The problem of European integration is a complex one and it cannot be limited to an economic dimension.

Following the breakup of the CSFR, the Czech Republic is a relatively small state in a geopolitically important region, in Central Europe. Therefore, it must give careful thought to providing for its fundamental national and state interests while being aware of its possibilities and its role. It must,

first and foremost, strive for good relations and cooperation with its neighbors. Putting on airs and isolationism—as a specific manifestation of Czech nationalism—are only to its detriment here, especially since, following the collapse of the communist regimes, the prerequisites have been created for relations between the Czech Republic and its neighbors to gradually free themselves from the negative heritage of the past and become relations of genuine cooperation. The ideologization of foreign policy, which manifests itself in some of Klaus's statements, is an obstacle to a well-balanced and promising Czech foreign policy.

Klaus Explains Economic Philosophy, Policy

94CH0172A Prague *EKONOM* in Czech
12 Jan 94 pp 13-15

[Interview with Prime Minister Vaclav Klaus by Irena Satavova and Eva Klvacova; place and date not given: "Ten 'Whys' for Vaclav Klaus"]

[Text] *The first interview by EKONOM in the new year was the already traditional discussion with Prime Minister Vaclav Klaus about issues concerning the economic transformation and its progress. This time our questions were directed at the deeper pivotal connections of the reform, at the logic for selecting the individual systemic measures.*

[EKONOM] Why is the Czech Republic being acknowledged as the most successful of the former socialist countries after three years of the economic transformation? Do you see the main reason more in the relatively favorable starting position of our economy, or do you think the chosen transformation strategy was decisive?

[Klaus] That question has two parts: first, distinguishing between what was a kind of gift from the past and what was our own doing, and second, determining the factors that played the key role in the transformation process.

I tend to play down the view that we are doing well simply because during the First Republic there was a democratic tradition here and a good level of industrial production. Naturally, it is a question of degree and quantitative calculation, but my assessment of the ratio between the past and the present is 2:8. I think the absolutely key factor was that we succeeded in choosing precisely at this time the only correct and the only possible way. Given the same kind of past, if the concept of one of the "third" ways had prevailed, then today we would be exactly where the other postcommunist countries are now.

The general answer I can give to the other part of the question is that the uniqueness of our transformation process is the interplay of our political and economic factors. The notion that to achieve success only the political factors and the velvetness of the revolution would suffice, or that being a little bit better economists than the others would be enough, is not right. I believe that the magic and the charm lies precisely in the mutual interplay that makes possible an upward-leading process. If this interplay is poor it creates a vicious circle of hopelessness, which is precisely where many postcommunist countries find themselves.

[EKONOM] Why, in spite of a number of problems of which every citizen is to some extent aware, there still exists a large measure of consensus on the reform among the majority of the population? Do you think it is due to the fact that the reform was measured out in the right doses or to the fact that people were able to recognize that the chosen way is correct...?

[Klaus] I think that the consensus is the result of a very open, clear, and forceful reform policy, and of the fact that we simply managed to sell our basic concept which we promulgated and are promulgating. Using the terminology of your journal, we could say that we were good salesmen of our concept of the reform and that we marketed it very well. We are talking about a kind of perpetual election campaign, incessant explanations, arguments, and influencing of the public. That has not happened and is not happening now in the other postcommunist countries.

[EKONOM] Why is there in the Czech Republic, in spite of the decline in production, a significantly lower unemployment rate than to the west and the east of us? Is it because of the growth of the private, especially the service, sector, or because, in the thus-far unprivatized enterprises, overemployment still persists?

[Klaus] From Milton Friedman I learned to always distinguish permanent quantities which have their fixed, long-term value, from transitory quantities which deviate in the short term from some level that holds over the long run. Our temporary unemployment rate is now evidently below this long-term value, at which it will stabilize itself in time. In that respect, the short-term movement in the unemployment rate will certainly be upward, but it will be a continuous and moderate movement within the range of a few percent, not a big jump.

As far as the causes of the favorable short-term unemployment rate are concerned, in my view there are three. One stands apart from the economic mechanism and belongs more in the category of the societal and social climate in the country. I evaluate it with the help of the participation rate (share of the employed or those looking for employment among the able-to-work population) which, thanks to historical, ideological, as well as peculiarly specific traditions, has been extremely high here. Its decline to the level usual in other countries is the natural consequence of the democratization process. The remaining two factors, of which one is positive and the other negative, are economic. The positive one is the tremendous dynamics of the nascent private sector which succeeded in absorbing a considerable part of the released labor force. From the structural point of view, there has been an evident outflow of the work force from the primary and secondary sectors to the service sector, which is very labor intensive. That, after all, also made possible the tourist boom here, while at the same time being financed by the tourist boom. The third, this time negative, element is the survival of the phenomenon called in the economic literature "labor hoarding." It is known from the standard course of an economic cycle in the West, when during a recession and a fall in demand production declines much more than employment, because companies hope that it will be better for them to keep their skilled

workforce and not have to look when demand goes up again for new people whom they would have to train. Labor hoarding here has many causes. Today, from my position as prime minister I would not presume to determine whether this is a standard, in its own way a rational, phenomenon or a specific behavior by the present and former state enterprises, and I have a feeling that not even your magazine's independent experts have enough arguments to do that.

[EKONOM] Why, even after the law on bankruptcy and settlement went into full effect, are there no bankruptcies? Do you suppose it is because of the nonexistence of real, private creditors, the interlinkage of the banking sphere and the enterprises, or the overload in the courts?

[Klaus] Bankruptcy is not some desired economic phenomenon. The economic phenomenon we want is restructuring. It has many forms: enterprises divide, combine, some grow, some fail spectacularly, and the notion that the only correct form of restructuring is a bankruptcy is simply fundamentally wrong. I believe that a critic of the restructuring process of the Czech economy should assess the rate of this process while keeping in mind that the absolute number of bankruptcies is only a very imprecise indicator of it. Those who connect these two phenomena are making a terrible analytical mistake.

Which indicator of the restructuring do I consider better than the number of bankruptcies? I would offer any number of them. For example, the number of available jobs on the labor market, which, however, are poorly recorded in the statistics, or the rate of labor turnover. The correlation between them and the number of restructured enterprises says more than a mere number of bankruptcies, which is only the tip of the iceberg.

[EKONOM] Why was it possible to maintain during the entire period since December 1990 a stable exchange rate of the Czech koruna and not find ourselves in the vicious circle: imported inflation—general inflation—imbalance in the balance of payments—further devaluation? What arguments can be used to counter the demand for the revaluation of the exchange rate, in favor of which speaks the undervaluation of the exchange rate in relation to the parity of the buying power, and how to resist the pressure from the lobby of exporters calling for further devaluation?

[Klaus] Fundamental for the success of the reform was to create what I would call a cushion—that is a sufficient difference between the real exchange rate and what is usually hypothetically called parity of the buying power. In other words, the economic exchange rate had to be placed on its marginal, not the average, level. Its stability during the 36 months proved that our choice of the starting rate of exchange was absolutely correct. Since that time it has been continually strengthening, in other words, the real exchange rate is increasing even though the nominal rate remains constant. We succeeded, therefore, in fulfilling the announced prerequisite of having the nominal exchange rate become the anchor of the entire economic system, the single fixed point around which other quantities revolve, not the other way around.

As far as the devaluation or revaluation pressures are concerned, they reflect the fact that various economic entities stand on various sides of the market and each pushes its own interests. The magic of the market lies in the fact that a partisan interest must not and cannot prevail, as long as there is not in power an obtuse and bumbling government which would allow itself to be influenced by those lobbyists. I believe that with our government no such danger exists. But it would be an absolute mistake to assume that our exchange rate is rigid. Although the nominal exchange rate is firm the real exchange rate is growing stronger, so that actual revaluation goes on continually. But I do not think that there should be a nominal revaluation.

[EKONOM] Why was it necessary to resort to wage controls? Don't you have the feeling that the thus far unprivatized enterprises, to which it should mainly apply, do not take wage regulation very seriously, while private entrepreneurs use it as a shield against the demands of their employees?

[Klaus] In the ideal market, after the entire transformation in its macro and micro dimensions is completed, wage regulation, of course, makes no sense and has no justification. We are not yet in a situation where stable market relations exist; when the government analyzed the developments in the wage situation, the movement of the wages caused it justified concern. Although after the price liberalization a so-called second transformation cushion was created, when the average real wage fell below the average labor productivity, since the initial months of 1991 a process of real wage increases began. A faster increase of wages over prices is in this situation of emptying the cushion logical and quite all right, the only disturbing thing is its rate—and that was, in our opinion, considerably exceeded in 1993 and did nothing else but increase inflation and worsen our economic position abroad. Therefore the government resorted, even though it was not very happy about it, to this unpopular step, and the minute it is under the impression that it can retreat from it, it will do so without delay. A country which quickly increases its real wages pushes itself out of the market. We know many cases where this happened—we can name, for example, the former GDR after the unification of Germany or the latest developments in Slovenia—which should serve as a warning.

And as far as the fact that some "escape" from the wage regulation, well, every regulation has its drawbacks. Economic policy has, always and everywhere, its two dimensions: one sends a psychological signal and the other has the effect of blocking or making something impossible. These exist parallel to each other even in the case of wage regulation. Which one of them has a stronger effect I cannot say exactly, but I believe that there is a certain effect.

[EKONOM] Why is it necessary to maintain a balanced budget and not allow a deficit budget, when all West European countries work with one. In this connection the case often cited is that of the United States, which has one of the greatest indebtedness in the world and which at the same time was one of the first to get out of the current recession?

[Klaus] All parents know the standard question of their children: Why do I have to be home by nine when all other children are allowed to stay out until eleven? Remember the answer you give them, and my answer to your question is not that different. Just because somebody else does something differently does not necessarily mean that it is good and that we have to do the same no matter what. It is absolutely clear that to run a deficit in the state budget, when we borrow at the cost of somebody else in the future, is bad policy. Let nobody confuse it with an individual's decision to take out a loan, which is made by one and the same person who knows that he himself will have to repay that loan. The decision of the state as a whole is something entirely different than such a decision which carries individual responsibility, and the state today and 20 years later, when the loan may have to be repaid, is not an identical entity. And that a deficit leads to inflation, which is another form of taxation on a number of economic entities, is also absolutely clear.

[EKONOM] Why was it possible to make the assumption that this year the inflation will be only in the single digits? Is such expectation realistic?

[Klaus] To inflation applies the theory that less inflation is better than more inflation, and no inflation is the best. Why? The entire economic system is held together by a general equivalent—money. In fulfilling its function as a measure of value it should be stable. If we have inflation, the measure is no longer made of steel but of rubber, which sometimes stretches, sometimes contracts. But we need to work with economic quantities about which we know what value they have today and what value they will have tomorrow, the day after tomorrow, in a week, in a year. That stability of values, made possible by minimizing inflation, is an enormous economic good. Not mentioning the fact that many of us have fixed incomes which are devalued by inflation. These are standard textbook arguments and are no exaggeration, as they may appear to some.

When I declare that inflation will be in the single digits this year I am not arguing about percentages, I am stating above all the following: inflation will be visibly lower than in 1993 when it approached 20 percent.

[EKONOM] Why are many prices still regulated by the government? To what extent is it a question of the social tolerability of the reform and to what extent a question of subsidizing monopolies?

[Klaus] Undoubtedly, some prices are still regulated by the government, but there are not many of them. In comparison with many West European countries we are a country that is regulated less rather than more. I am not aware that the basic objective of regulation is to struggle with the monopolies. It is rather a question of a general tolerability of the reform. Prices must be adjusted during the entire transformation process toward their final point, which we can define as the world prices, only slowly (that is, after all, another rule of transformation). We are all angry at Skoda-Volkswagen when it wants to sell vehicles for world prices calculated by the exchange rate. That is simply nonsense, which, unfortunately, many of those gentlemen do not understand. I would not confine the reasons for changing

prices gradually only to the social aspect, because far more important is the economic aspect: increasing the price of a railroad ticket to the level of world prices would not mean just that some will stop riding the trains because it is socially intolerable for them, but the next day the railroad would perish because it would cease to be used by those for whom it is economically intolerable. And it is precisely in cases of some of the more or less badly structured branches that is useful to have the state help keep the adjustment process gradual by regulating prices.

[EKONOM] Why, in spite of the fact that the private sector is growing very rapidly and shared in the creation of GDP in the third quarter of 1993 by more than 60 percent, is the decline in industrial production continuing? Data for the first three quarters of 1993 showed a decline of 5.2 percent, and in construction 4.1 percent, in comparison with the same period last year. What is the reason?

[Klaus] Statistical data that describe this phenomenon may be correct, maybe not. If they are correct, then all I can say is that the process of eliminating the economically unhealthy production for which there is no demand has simply not yet ended in our economy. Nothing more, nothing less. It is a different matter, however, if the numbers do not give us the correct information. And I can make serious arguments for thinking that this is the case.

First, we have here an enormous problem with the master database. Every statistician knows that the most important thing is to have a permanent master database with which to work. Thanks to the restructuring and privatization there have been some unreal changes in our database of enterprises, and I do not believe that with all these transformations every enterprise is submitting statistical reports compatible with those they had submitted in the previous year. If we grant that the error could be on the order of 1-2 percent, which, for every statistician, is a perfect result, just such an error means that the GDP in the third quarter of 1993 registered not a decline of 5 percent but an increase of 1 percent, for example.

The second factor is the more precise evidential capability of the natural quantities than of the value quantities. Therefore, no matter how paradoxical it sounds, I also pay careful attention to quantities in the current prices, and I put big question marks over the quantities in the constant prices. The complexity of constructing price indexes is so enormous that an error in the category of 1-2 percent is completely negligible and rather tends to be much greater. The third argument in favor of my assertion is that in all cases individual statistical indicators measure only the gross rate, not the net quantities. The question of what is getting rid of the "wheel spinning" in any number of economic activities and what really is a decline in the net product, that for me is an unknown and statistically not recordable phenomenon. It leads me to the conclusion that the information, for example, about the decline in GDP during the first three quarters of 1993 by 0.9 percent says absolutely nothing to me, it only evokes the problem of political vindication and explanation of that number.

Details of 1994 Budget Plan Published

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[Article by Vera Kamenickova of the Czech Republic Ministry of Finance: "Budget 1994"]

[Text] In connection with the drafting and approval of the 1994 budget, two basic comments have been heard concerning the impact of the budget on economic growth. On one hand, the presenters of the budget are portrayed as budget fundamentalists, people who try to maintain a balanced budget no matter what the cost, even at the cost of undermining the possibility for economic growth. Parallel with that we also hear the view that the budget is balanced only because it uses off-budget money, namely, from the National Property Fund, to cover some of its expenditures.

The truth can be found on both sides, although I would not use the term fundamentalism in the first instance.

Economic theory unequivocally commends a balanced, even a surplus, budget. In spite of that, most countries report a budget deficit. And the reason? In many cases it is a matter of the growth of social expenditures in the broadest sense of the word, which goes hand in hand with the effort to reduce the tax burden and thus indirectly support economic growth.

Obviously, no country has at its disposal a set of instructions on how to best distribute the tax burden in order to support growth, justice, tax neutrality, and solve the social aspects. That is, after all, attested to by the more or less frequent interventions by individual countries into their fiscal systems and the unceasing struggle to reduce the budget deficit.

The fiscal policy of the Czech Republic is based on Czechoslovakia's fiscal policy tradition. It was characterized from the very beginning by considerable circumspection, as far as a budget deficit is concerned. That circumspection was assumed also by the postwar government, and so the creators of the economic reform did not have to deal at its start with the expense of a direct, inherited budget deficit.

In the Czech Republic, the effort to maintain a balanced budget is understandable also in view of the still immature capital market. And other than in there, the resources for financing a possible budget deficit, if we do not consider foreign countries, are not available.

There is even no need to argue with the fact that a strict budgetary policy has proven itself effective in the course of the economic reform. And it would be very difficult to find a model which would prove that a deficit budgetary policy can be successful.

So much about budget fundamentalism. The situation becomes more complicated when it comes to dealing with the assertion that the budget has a hidden deficit, because it finances some of its expenditures from the resources of the National Property Fund. It is known, for example, that Great Britain achieved a surplus budget precisely during the years when part of the revenues came from the proceeds from privatization. It is therefore quite clear that when it

comes to the proceeds from privatization being used by the budget, the Czech Republic is not the only one.

Proceeds From Privatization and the Budget

The assertion that using the resources of the National Property Fund is using capital for current expenditures—consuming capital assets—is to some degree arbitrary, as long as the budget finances its capital expenditures from its current revenues. Then it is only a matter of technicalities. The specification of the budget expenditures which will be financed this way serves primarily to determine the extent of the resources which will not be taken from current budget revenues but from the proceeds from privatization.

The Czech Republic is still an economy in transformation, in which even nonstandard operations are financed from the budget. An example is the public debt. This debt (both external and internal) was not created primarily by the accumulation of budget deficits from the past.

Table 1
Revenues of the State Budget
(in billions of Kc)

	1993 ¹	1994
A. Budget Revenues	223.6	237.3
—value-added tax ²	80.6	94.5
—consumer tax ²	39.5	42.1
—income tax ³	71.6	77.4
—customs duties	14.8	16.9
—road tax	3.7	2.7
—gift tax, property transfer tax, etc.	2.4	3.7
—tax from the 1992 taxation system ⁴	11.0	3.7
B. Social Security Insurance	107.5	120.1
C. Nontax Revenues	22.2	24.4

¹ Estimate

² Including supplementary payments of sales and consumer taxes for 1992

³ In case of personal income taxes, only tax on capital income

⁴ Without supplementary payments of sales and consumer taxes

Part of the public debt in the amount of 163 billion Czech korunas [Kc] is, among other things, the debt that was created by taking over a proportional share of government loans from the former Czechoslovak State Bank (Kc26 billion), by the settlement of exchange rate differences from the devaluations in 1990 (Kc17 billion), by assuming some obligations of the Czechoslovak Commercial Bank—clearing the balance in this bank of the obligations and claims which accrued to this bank before the year 1990 (Kc58 billion), costs arising from the issue of bonds for comprehensive housing construction—the funds were transferred to communities in the form of grants (Kc9 billion).

It is proposed that in 1994 the National Property Fund should provide financing in the amount of Kc18.3 billion out of its total proceeds from privatization, which is 46 percent of its expected revenues for this year.

What the Municipalities Want

But one can point out some other blemishes that mar the beauty of the 1994 budget. In many countries local budgets are not, as is the case in the Czech Republic, basically part of the the central budget document. The sole exception are grants from the central budget to local budgets.

Moreover, in the Czech Republic this practice is the object of constant arguments between the representatives of the municipalities and the Ministry of Finance. The municipalities are demanding that only some of their revenues be budgeted within the framework of the law on state budget. As a result, the actual revenues of municipalities are much higher than those which are specified in the law on state budget. This then makes the analyzing of the management of municipalities and district offices extremely difficult. That applies not only to 1993, in which revenues from personal income taxes were higher than expected, but also to previous years.

In the Czech Republic there still exists a certain kind of paternalism of the state over the budget of the municipalities. But it must be added that in many respects some representatives of the municipalities do not resent such paternalism. The proof is the frequent visits to the Ministry of Finance and other central offices, motivated by the effort to gain something extra for the municipal budget. On the other hand, many municipalities consider unnecessary something that is quite common in many countries—a regular, and accessible to all who are interested, audit of their budget management. It would substantially increase their credibility both in the eyes of the citizens and of the banking sector.

Reserves and Their Utilization

The subhead General Accounts Management would need a much more substantial reduction than the one it went through so far. The holding of a large reserve in the budget—that is, money whose allocation is decided only in the course of the year, is conducive to wastefulness. Not even considering the fact that because the existence of the reserve is generally known, the demands on it far exceed its capacity.

By the way it constructs the budget and allocates expected budget revenues to individual departments, the government expresses a certain set of priorities for the given year. Additional expenditures from General Accounts can interfere with these priorities, because the decision concerning these expenditures does not always have to be made with the knowledge of all the correlations that are weighed in making decisions on the overall allocation of budget revenues.

A certain technical reserve in the budget is evidently held by every country. Important is its amount in relation to total expenditures. It has an influence on what part of the money the government has at its disposal is allocated according to plan and what part can be allocated ad hoc. Allocating money actually outside the framework of the approved budget undermines the original rationality of the

structure of expenditures. I believe that the current amount of this reserve considerably exceeds this hypothetical minimum.

One can also dispute whether the budget manages the cash flow efficiently, that is, whether the kind of cash management that is used is really sound. Technically there exists a certain space of time between, for example, the collection of taxes and the use of these revenues for budget expenditures. At present, this money which is "suspended" in space is at the disposal of the Czech National Bank. It can, but does not always have to, use them to the greatest benefit of their owner—the Ministry of Finance. In developed countries one pays even for a one-day loan.

The 1994 budget was planned according to a medium-term strategy of fiscal policy. Among its main objectives is the maintenance of a stable economic environment, gradual reduction of direct taxation of entrepreneurs as well as households, reduction of the share of budget expenditures in the GDP, and the stabilization of the public debt in its absolute definition.

The national budget, the local budget, and the budget of the health insurance institutions are constructed as balanced budgets. Within the frameworks of the total revenues of the public budgets they represent the revenues of the state budget in the amount of Kc382.8 billion, and the revenues of the local budgets in the amount of Kc52 billion. The transfer of funds between the national budget and the local budgets represents the sum total of grants in the amount of Kc14 billion and grants from the subhead General Accounts Management in the amount of Kc77.1 billion, which is 20 percent of the revenues of the public budgets (excluding health insurance institutions).

The tax policy for 1994 is therefore built on a medium-term concept, which is based on a gradual reduction of the tax quota, and within its framework on the reduction of the burden of indirect taxes.

In 1994 that objective is being characterized by a reduction of the income tax rate for legal entities by 3 percent, reduction of the highest personal income tax rate also by 3 percent, increase of the nontaxable portion of income for the personal income tax by Kc1,200, and the increase of the deduction for a minor or a child in school by Kc1,800. The adjustment of deductibles for personal income tax is partially compensated for by the discontinuation of the deduction for transportation, which makes the structure of this tax simpler. In addition, there is a reduction of the insurance rate.

In case of the value added tax, the ceiling above which its payment is required is being lowered from Kc6 million to Kc3 million. That measure should improve the conditions for economic competition. Besides the increased income, however, we can expect also a certain increase of expenditures connected with the administration of this tax.

Further, some consumer taxes are being increased (for gasoline, alcohol, cigarettes). Special vehicles will not be subject to the road tax.

The overall impact of these measures is estimated at minus Kc3 billion for the national budget, and minus Kc0.7 million for the local budgets.

Local Budgets

There are no basic changes in the local budgets in 1994. Somewhat more significant changes can be expected in connection with the creation of higher self-governing units. Some powers and revenues, which previously belonged to the local budgets and the state budget, will evidently be transferred to them.

Table 2
Revenues of Local Budgets^a
(in billions of Kc)

	1993 ¹	1994
A. Tax Revenues	33.7	39.0
—property tax	3.0	2.9
—personal income tax ²	24.2	2.9
—taxes from 1992 taxation system	6.5	—
B. Nontax Revenues	14.3	13.0
—revenues from activities of budgetary and contributory organizations	6.0	6.6
—administrative charges	1.2	1.0
—local charges	1	1.4
—income from the sale and leasing of municipal properties	1.9	0.5
—supplementary income	4.0	3.5
(Total own income)	48.2	52.0
C. Transfers From State Budget	26.1	25.1
—block grants	17.0	14.0
—grants-in-aid	5.5	6.9
—targeted grants	1.5	4.2
—territorial equalization grants	10.0	2.9
—money from General Accounts	9.1	11.1
Total Revenues	74.3	77.1

^a Budgets of municipalities and district offices

¹ Estimate

² Without tax on capital income

In 1994, there will be a change in the proportions of the allocation of tax revenues from dependent activity (i.e., the most important part of the personal income tax) collected within a district. The share of municipalities in the tax is being increased from 40 percent to 50 percent, and the share of the district offices is being cut. The Ministry of Finance is thus reacting to the gradual transfer of the financing of some activities (for example, health care facilities and facilities providing social care) from the district offices to municipalities.

The municipalities are gaining greater authority in determining the amount of property tax. They have, for example, the authority to set a higher tax rate for recreational facilities and buildings used for business activities.

Among the grants-in-aid is the contribution for public administration. The method of calculating it for the individual municipalities is not changed in comparison with the year 1993. There is also a grant for the construction of homes with community care services. This concerns the funds needed to complete their construction and to build new ones, the objective being to ensure that they are distributed equally over the entire territory. The last item in this category is the compensation for social benefits which the municipalities or the district offices pay to their residents.

The purpose of the targeted grants is to give municipalities and district offices a certain contribution for financing education, social services, and health care. In 1994 the contributions from the national budget for one student, for one bed in a social services institution, and for one bed in a selected health care facility (only those which are not financed through the insurance institutions) are being increased.

The increase of grants-in-aid and targeted grants is made at the cost of the equalization grant. That measure thus "favors" the municipalities that have the facilities over the municipalities which, mostly for historical reasons, have a smaller per capita revenue base and therefore fewer possibilities when it comes to distributing local public assets.

The decline of the importance of the territorial equalization grant means a limit on the leeway the Ministry of Finance has for compensating for significant differences in the per capita revenues of individual areas. The result is a further restriction of the principle of solidarity within the framework of local units and more emphasis on the principle of "merit," which, of course, is in the current conditions in the Czech Republic, as was already indicated above, considerably controversial.

In 1994 the Czech Republic does not face the kind of momentous changes such as was the division of the federation or the introduction of the new tax system. This year will overwhelmingly be devoted to the refinement of the measures adopted during the past several years. To make a big change is relatively simple. It requires especially consensus and determination. To convert these basic changes into a series of "small" changes, which only can determine whether the big changes were justified from the viewpoint of a longer perspective, is a much more demanding task, and not only of time. The year 1994 should be the beginning of this long journey. What role the budget will play in this process will only become clear from the first economic results of next year.

Economic Recovery Projects To Add 100,000 Jobs

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[Article by Milan Horalek, of the Research Institute for Labor and Social Affairs: "A Concept for Territorial Economic Recovery—A Project To Add 100,000 New Jobs"]

[Text] *The market is shifting capital to advantageous portions of the state and is instrumental in creating problem*

territories. Inactivity in terms of recovery in some regions can be the source of new economic and social differences. Developmental projects should necessarily involve promising firms.

Three years of transformation have restored the macroeconomic balance (in the sense described by Walrasov) and has created a demanding environment for the attainment of microeconomic balances (in the Marshall sense). This historical operation, based on the restoration of actual ownership, its responsibility, and motivation, will culminate in the years immediately ahead. There thus ensues the "moment of truth," in which it will be shown, in specific terms, what has been done well, what has been done wrong, and what was forgotten.

Subsequent "macro" and "micro" adjustment efforts will be ongoing in the realistic territory of the new state and in its spatial components. The recovery and failure of companies are connected, albeit in an undesirable way, with the recovery and failure of jobs. No definitive regions or any regional policy exist, but more or less prosperous territories and areas develop and can be transformed into crisis regions. The unseen hand of the market directs capital streams toward more advantageous areas; in other areas, however, people must also live and prosper. The territory of the Czech Republic is also limited and a rare resource, which must be handled economically.

Over the past three years, there have been great structural changes in the market, changes in the areas of production and services, changes in the structure of employment. The latter have taken place even in the face of an enviable and criticized low unemployment rate. This development was aided by a specific policy and the activities of people, things that relieve the pressure on the labor market. The ranks of the unemployed did not include mothers, who may devote themselves to their children at home thanks to a social contribution—neither did the ranks of the unemployed include those working abroad or 120,000 of those who, with the support of labor offices, embarked upon new activities in newly created jobs. Thus, 4-5 percent of the people did not become unemployed but are working, for the most part, for low wages and are paying high taxes. However, given the ideal 3-percent unemployment rate (some consider it to be harmfully low), individual and contiguous territories have come into being in which an average of 30-60 unemployed can be offered only a single job. In the city of Prague, one applicant for work is statistically offered 10 jobs from the register and actually has 20 from which to choose. The creation of new jobs is progressing under influences that are different from those that created populations in the territories. Not all of these people can move without the development of depopulated and "uninhabited" territories. In looking at the situation depicted on the map, it must be clear that, in some territories, a situation is developing that makes further restructuring more difficult. For example, this holds true in the Saar region, the Rhine River region, Lotringen, Linz, and the Japanese steelmaking regions; restructuring was so successful in these areas that the so-called centrifugal effect gave rise to the development of thousands of small firms with hundreds of thousands of jobs in neighboring territories. In the "old territories" of

United Germany, employment rose 5 percent over the past 12 years in 41 industrial centers but increased 17 percent in its marginal territories! It was only as the result of such a centrifugal effect that employment in the Rhine River region was able to decline by 24 percent without causing economic or social reverberations. In our country, for example, Ostrava (with 5-percent unemployment) is surrounded by territories having a far higher rate of unemployment and a frozen rate of new job creation, even before restructuring, which is far worse.

Unemployment in the Territories

For more than two years now, there has been express territorial differentiation regarding the development of unemployment and the creation of new jobs. Current records, by okres, documenting this development indicate that, on the one hand, okreses in which there are 10 jobs per applicant do exist and, on the other hand, there are okreses in which there are 30 applicants for one job. However, in the smaller territorial entities, these differences are significantly greater. In the attached map [not reproduced here] showing the territorial breakdown of unemployment (as of 31 August 1993), territories with double-digit unemployment (dots), quadruple unemployment (crosses), and sextuple unemployment (black areas) can be clearly seen in comparison with the Republic average (3 percent).

An analysis of these critical and languishing territories shows that:

- Long-term unemployment is growing there, and the number of jobs is declining; the creation of new jobs is negligible, temporary, and thus results in repeated unemployment.
- The wage and income level of the population in these

territories is declining; community budgets are shrinking, and resources for temporary employment in publicly beneficial type of work are disappearing.

- In these territories, the number of families drawing payments to supplement their minimum level of the standard of living, with which it is possible to exist for a certain time but not to live normally in the long run, is growing.
- These areas are not demonstrating growing buying power and demand for new products and services; the opportunities to develop new meaningful jobs are running up against the tight barriers created by a market that is progressively more impoverished.
- In these areas, the infrastructure, transportation, communications, etc. is failing; "uninhabited" regions with devastated facilities, etc. are developing.

The above negative tendencies are gaining in strength and absent any new effective policy for territorial recovery will acquire socioeconomic emphasis, particularly in the area of Silesia and Moravia. Additional unemployment, over and above that shown on the map—that is to say, an increase in the Czech Republic by 0.5 percent during the period 1 September through the end of 1993—took place primarily in the more expanded crisis territories of Moravia and Silesia, in addition to several regions in Bohemia. This trend will continue at a greater rate of speed and will, apart from affecting less or more qualified workers, impact primarily on mothers and people with impaired health.

If we project the ongoing trends in the territorial development of unemployment and incorporate in them the inaccurate notions regarding the downsizing of existing firms, it is possible to express the notion, on an overall basis (macro), that, if the average rate of unemployment rises to 5 percent, it will be distributed as follows:

Czech Republic—5%	Bohemia—Less Than 3%	Moravia and Silesia—More Than 9%
	Including: 3 okreses with about 10% unemployment 5 territories with about 15% unemployment	Including: Half of okreses with about 15% unemployment One-third of territories with about 25-30% unemployment

Note: Territories do not cover an entire okres but transcend the borders of two or three okreses.

A further "waiting for economic growth" can, particularly in more extensive territories in Moravia and Silesia, lead to weakening civic solidarity and support for economic transformation. The warning thus expressed is based not only on the analysis of the reasons for its development but also from the evaluation of further development projected for the territories of the Jeseník area, the Osoblah area, the Vitkov region, the Zivotice region, the Hlucin region, the Nový Jicin area, the Roznov area, the Belokarpaty area, the Brno area, the Mikulov area, the Znojmo area, the Třebíč area, etc. An evaluation of further possible development in West Bohemia, Central Bohemia, and North Bohemia territories indicates the possibility of a certain recovery over the next one to two years as a result of the transfer of thousands of new jobs from Germany (resulting from the advantage of comparatively lower costs for the German firms involved). In a number of the indicated

regions of Czech okreses, it is more likely to be able to anticipate a recovery, an above-average growth of wages and income, a growth in prosperity.

In territories to the east of the Czech-Moravian highlands, capital interest in subsupplier or cooperative establishment of jobs is only extremely weak, the comparative advantages are negligible; and low wage costs do not predominate over transport and infrastructure disadvantages.

The anticipated restructuring, the downsizing and liquidation of some firms that do not show any structural promise for the future, in areas that are already in a crisis today will result in a negative multiplier effect—that is, in the liquidation of hundreds of small private firms. In the crisis territories, paradoxically, there was even the downsizing and liquidation of an entire series of formerly secondary and "splinter" production facilities, which occurred on the

basis of "competitive privatization interests." Meanwhile, privatized companies with promising futures, located where the former "principal" enterprises were found, approximately 100 km away, are increasing their employment by hiring foreign workers. The growth of authorized as well as "black" foreign employment has grown to excessive and warning dimensions in 1993. The number of instances in which the provision of support for the development of new private firms has resulted in increased unemployment of foreign workers in areas of economic prosperity and increased unemployment in crisis areas is expanding. The excuse that workers have lower mobility is based, for the most part, on ignorance of the relevant demographic, economic, housing, and transport characteristics. Further inactivity regarding territorial recovery can, within a short time, result in new economic and social differences—that is to say, there can develop extensive territories of prosperity and extensive territories of failure. For purposes of revival of territories heading toward failure, it is necessary to fundamentally create external advantages for the influx of promising coproduction facilities and the development of positive multiplier effects.

Projects Involving the Recovery of Crisis Regions

If we wish to avoid ineffective and expensive methods of state subsidies and support for territories that are falling behind—that is, the perfunctory kraj or okres understanding of subsidies "from above"—we must consider the creation of advantageous conditions for the establishment of effective jobs by existing promising firms as the economic and social solution. Such "external advantages" require the working out of territorial projects, on the basis of which those firms with good competitive prospects must be persuaded to establish operating facilities in crisis locations.

The plan for territorial recovery should contain the characteristics of localities for new firms on the territory, their product and technological aims and equipment, their infrastructure requirements, and personnel (professional) staffing, including supplemental and on-the-job training. All of this should then be accompanied by the appropriate financial budget.

In the majority of cases, for demographic, technical, infrastructure, and other reasons, this will involve the establishment primarily of small or medium-sized enterprises of a cooperative, subsupplier character in relatively small territories. In 1994, approximately 12 such projects for territorial recovery should be worked out and initiated—three in Bohemia and nine in Silesia and Moravia. As a general rule, the identified territories will incorporate parts of two or three okreses and will transcend "historical" borders of various lands (Bohemia, Moravia, Silesia)—that is to say, they will require cooperation even among several community and okres organizations, several branch offices of banks, labor offices, and appropriate facilities of okres offices. A so-called pilot project should determine the adequate form for the initiative-directing organ for the project, its composition, authorities, and responsibilities.

Okres labor offices and their branches will thus acquire new tasks involving the following:

- The diagnosis of crisis territories, their labor, demographic, and professional potential. (Note: Existing records of job applicants do not provide all necessary data for this purpose.)
- Participation in placing the order for and the financing of the project with a specialized firm.
- Selection and combination of amended instruments of an active employment policy.
- Recommendation of the optimal character of production and services for the working potential of the territory in question.
- Evaluation of the mobility characteristics of workers and qualified estimates of multiplier effects of employment in the territory in question or in surrounding territories.
- Initiative activities involved in directing the work on the project and its realization.
- The acquisition of firms and those interested in moving to the territories—that is to say, collaboration with labor offices in those okreses in which the potential applicant firms, interested in establishing their operations in the projected crisis territory, are active.
- Evaluation of the extent and the need for external advantages for the realization of the project—that is, investments for the acquisition of suitable areas, the infrastructure and buildings for the entry of new firms, "softer" credits, etc.

Identifying the territories for the recovery project will result even in a new degree of initiative, cooperative and financial participation on the part of the Directorate of Employment Services of the Ministry of Labor and Social Welfare of the Czech Republic.

The leadership of that ministry has made a fundamental recommendation for the necessary changes in the instruments governing the area of requalification, participation in public works programs, etc. It even supports the concept of intensifying territorial recovery that I have presented on behalf of the Research Institute for Labor and Social Affairs, together with the Directorate for Employment Services. Now, it is a question of finding the firms or institutes that will work out the project with our help—of course, in competition (for a contract price) so that the quality of these organizations might entice both our firms and foreign firms to establish new operations.

As far as foreign firms are concerned, let us be realists. The recession and unemployment, which are general, tend to prevent rather than stimulate the entrance of large-scale capacities. Not even the most recent "high-tech" technologies will come. Help for the crisis territories will come primarily out of our heads and as a result of our specialized efforts. If anyone has the desire to "help" the problem through the use of vulgar politicization, he should consider that we are talking here about jobs for 100,000 people and not of a few power positions.

Polls Show Preference for Social Security

94CH0168A Prague RESPEKT in Czech 9 Jan 94 p 4

[Article by Michal Kudernatsch: "Our Satisfaction Is Growing Only Slowly"]

[Text] According to older sociological investigations, significant fears regarding the consequences of the economic reform that have been initiated prevailed in this country as of 1990. General feelings of insecurity were on the rise until June 1991, when they culminated—a mere 11 percent of the population at that time considered its economic situation to be advantageous. Since that time, the satisfaction factor among the people is showing a rising trend. The most recent November investigations conducted by the Sociological Institute of the Academy of Sciences of the Czech Republic and by the Center for Empirical Research (STEM) on "economic expectations and attitudes," contains proof of this: Their situation is characterized as being favorable today by every fourth household and virtually 73 percent of the population believes that the economic and political changes will provide subsequent generations with a better future than that which the communist regime could provide them. That is not altered in the least even by the finding that one-half of our fellow citizens continues to designate its standard of living as being lower than it was prior to November 1989.

The creation of a democratic framework is the fundamental goal and, at the same time, represents the means of the reform. That postulate is also accepted by the majority of the people—71 percent of the citizens of the Czech Republic thought, in November, that society was developing in the proper direction and 63 percent even agree with the contention that the establishment of the foundations for democracy has already succeeded. Nevertheless, in this country the inclination toward a totalitarian method of thinking continues to survive. More than half of the population (53 percent) continues to agree with the statement that "it would be better for our country if, instead of discussions on various methods for solving the current situation, there were a firm hand and someone to clearly say what should be done."

We even find a similar "discrepancy" between the continuing high support for the government, which espouses the ideas of economic liberalism, and the actual orientation of the majority of society, which is increasingly paternalistic. Whereas in June 1992 48 percent showed preference for the social market model, in which the state exerts a substantial influence over the economy, today that number has already risen to 59 percent. In contrast, ideas of a free market, in which the state is involved only to a minimum extent, is espoused today by only one-third of society (36 percent), which is 11 percent less than was the case last year in June.

Despite an overall high standard of living, significant social and economic differences are a characteristic feature of the market economy. At first glance, even here it seems that our society is prepared for this situation. The majority of people agree with the claim that it is correct for "truly capable people to have lots of money, even millions" (75 percent) and that "differences in salaries should be even

increased" (66 percent). At the same time, however, eight out of 10 people think that, in our country, "people grow rich primarily through dishonest methods." At the general sociological level, it can, therefore, be stated that in our society certain prejudices and embitterments against rich people continue to be strongly rooted. Incidentally, that conclusion is confirmed even by yet another finding of the investigation: a strong inclination within society toward paternalism.

An almost banal answer exists to the question why Czech society frequently adopts paradoxical and confusing attitudes toward economic issues: The reason lies in the gradual profiling of disparate social strata, which can be demonstrated, in a simplified manner, by noting the difference between latent paternalism and liberalism. (These attitudes are designated as being latent because not a single one of them is openly proclaimed, but is, rather, the result of the analysis of responses to substantive questions.) We briefly define paternalism as over-reliance on the role of the state, even in areas of social and economic life which are primarily the responsibility of the individual. In the investigation, paternalism was therefore characterized by positive responses to questions such as: Should the state officially set prices more vigorously, should it assure everyone who wants to work a job, or whether the state should guarantee people a place to live? By contrast, the liberal orientation stresses the role of the individual in all spheres of life and, in the investigation, is characterized, for example, by the agreement with the contention that "everyone is primarily to blame for their own poverty."

Data obtained in this manner indicate that, in our country, some 59 percent of the population are inclined toward latent paternalism, whereas 41 percent are inclined toward latent liberalism. And if we compare the data with the previously made statement—that six out of 10 people prefer the so-called social version of the market economy—then we find that virtually 80 percent of those who favor the social market economy actually visualize this concept as being the directive functioning of the state—much as we know it from the past.

Not even the question as to the extent to which the paradoxical views of people and their inclination toward latent paternalism or liberalism are determined by their political orientations is without interest. The respondents in the investigation, therefore, were tasked to list their political orientation. The results indicate that a large portion of the people tend to identify with the political center. However, that group is not characterized by any kind of more compact orientation and their views are somewhat unclear and frequently confused. (And that is not to even say anything about the fact that 33 percent of the people with paternalistic views consider themselves to be rightist in their orientation.)

A significant finding which has been statistically confirmed is also the fact that as "paternalists" as well as "liberalists" these people have their own socioeconomic hinterland, so to speak. Of course, there can be no talk of a unilateral "class" determinism, but, nevertheless, a certain connection between the attitude and the social anchoring of an

individual is discernible from the investigation. The entrepreneurial and managerial layer, for example, is characterized by its liberal attitude, whereas the cooperative sector is paternalistic. Much the same is true of property: The more property a person owns, the greater the inclination toward liberalism. However, in addition to economic aspects, it is also possible to find additional statistically significant factors here which tend to influence the formation of views. In the liberally oriented group, younger people and people in their middle years up to 45 tend to predominate. Also, education is important: Virtually 74 percent of the respondents with a basic education are paternalistic in their orientation, whereas 57 percent of people with advanced school education are liberal in their orientation.

Despite the fact that attitudes toward the reform are reflected in the social structure of society, it would be misleading to claim that this involves rigidly separated blocks. In other words: The investigation indicated that the differences are not so great as to enable us to say that the conflict between paternalism and liberalism is a dispute between the poor and the rich and that it thus seriously threatens the stability of the Czech Republic.

Foreign Investments in Services Growing

94CH0171A Prague HOSPODARSKE NOVINY in Czech 26 Jan 94 p 1

[Article by Martin Frydl: "Companies Located in the Czech Republic Made Direct Foreign Investments Last Year of \$45.2 Million"]

[Text] Compared with 1992, this is almost a 100-percent growth rate. Joint-stock corporations and corporations with limited liability are the most active in this area. For the most part, however, these investments are in the tertiary sphere, the acquisition of production capacities is sporadic. Two-thirds of the investments are of a material character.

Property participation by Czech foreign exchange nationals abroad—in other words, direct investments from the Czech Republic—amounted to \$45.2 million for 1993, according to preliminary data, according to what the director of the Foreign Exchange Department of the Czech National Bank, Jiri Zimola, told our newspaper. According to him, Czech enterprises are substantially more active in this regard in comparison to previous years. In 1992, approximately \$28 million was invested abroad, and, in 1991, investments abroad amounted to only \$3 million. The period 1992 and part of 1993 was a preparatory one for privatization. This is also reflected in the lower degree of interest on the part of state enterprises in activities abroad, the director noted. In 1993, more than 90 percent of the investments were accounted for by stock corporations and corporations with limited liability. The share of state enterprises in this endeavor was about 1 percent.

Last year, the largest investments abroad were made, for example, by Skoda Mlada Boleslav (in Great Britain), the Prachovice Cement and Lime Kilns (Netherlands), Invest Plzen (Russia), Strojimport (Austria), CSKD Intrans (Slovakia), the Maritime Navigation Enterprise (Malta), and the Stone Industry of Brno (Croatia). Last year, the largest

investments were made in Malta, where a maritime freighter was purchased and, at the same time, registered. Other than that, the top investments were made in Russia, Slovakia, and Great Britain.

The absolute majority of investments are aimed at business and services because enterprises are attempting to use them in support of their exports, according to J. Zimola. Meanwhile, the acquisition of production capacities is more isolated for the time being. One of the few examples of this type of investment can be the Vitkovice Ironworks investment in Algeria, the realization of which is in the negotiation phase for the time being. Because investments in the tertiary sphere are financially relatively undemanding, the overall value of direct investments is not overly great, the director added. In relationship to the volume of foreign exchange flowing into the Czech Republic, these investments represent substantially only a negligible amount. However, the interest in production investments, and, thus, the overall volume of direct investments, should grow together with the progress made in the privatization of large industrial enterprises, he added.

According to the foreign exchange law, all investment activities abroad are subject to foreign exchange permission issued by the Czech National Bank, following negotiations with the Ministries of Finance, Industry, and Commerce. Primarily, consideration is given to project investment returns that, when dealing with investments in the tertiary sphere, are currently running at about two to three years; in the case of production investments, returns are running at four to five years. The Czech National Bank is also interested in the form of the investments. Last year, only a small portion (22.9 percent) was realized financially. Some 63 percent of the investments were material in character (primarily by providing mechanical equipment). The remainder involves principally the capitalization of accounts receivable.

Agricultural Trends, Development Channeling

94CH0171E Prague HOSPODARSKE NOVINY in Czech 12 Jan 94 p 17

[Article by Alexej Balek, of the Institute for Economic Policy: "Agriculture in the 1990's: Trends, Dynamics, and the Channeling of Its Development"]

[Text] Restructuring cannot get by without involvement of the state, and reforestation cannot get by without a global concept. Reduction of the weight of agriculture in the economy calls for a directed process. The number of workers in agriculture will be declining.

Existing problems will continue in agriculture throughout the 1990's, and new problems will develop and expand, including global, economic, social, ecological, and landscape-forming problems. They will impact upon the lives of people in this branch of the economy in adjacent sectors and areas and will even impact on territorial questions. The weight of the extraproduction, extraeconomic significance of agriculture will increase.

Stagnation

Agriculture will be primarily facing stagnation of food consumption in this country and West Europe. The stagnation of food consumption is the result of both economic and systems causes (for example, a change in the structure of expenditures by the population, temporarily lower real incomes for a significant portion of the population), as well as demographic ones (stability or decline in population numbers, deterioration of the age structure of the population). Exceptions to this stagnation will be the production of fruit, vegetables, and milk in the vicinity of large towns and agglomerations, where good sales opportunities will exist.

Czech agriculture will have to deal with foreign competition to a greater extent—competition not only from the West but also from the East (for example, Ukraine). Efforts will increase to sell foodstuffs in our country that are unsalable in the West. This problem will be connected with the competitiveness of Czech exports of industrial commodities and services. The described situation will bring about the necessity for restructuring agricultural production, for limiting areas to be seeded, for changes in the structure of livestock production, etc.

Restructuring

Limiting cropland areas poses the question as to what is to be done with them. There is the possibility of reforestation, utilization for recreational purposes, agrotourism, energy production, etc. These directions for utilizing and modifying the landscape need not result in adequate economic effects (at least from the medium-range viewpoint); on the contrary, they will be resource-intensive.

In the short period of two to four years, land left to lie fallow will be the source of a spread of weeds, will lead to higher costs in plant production and to the necessity of multiplying the use of herbicides and chemicals to care for the land. This will have an influence on the quality of the environment.

For many reasons, changes in the landscape that involve complex questions with a number of tie-ins and interconnections can very likely not be left to unrestrained development. Reforestation cannot get by without a certain concept that would coordinate various interests. This process will be impossible without incursion on the part of the state. This is also necessary because this will also involve organizational and coordination tasks. Reforestation will require expenditures that will not result in a return on investment for 60 to 80 years, something that will not be lucrative for entrepreneurial entities.

The establishment of water reservoirs, of small and medium-size hydroelectric and wind-driven electric power plants, can bring definite as well as economic results sooner than can be obtained through reforestation, but will be capital-intensive and, in a number of cases, not even hold a promise of average profits. But these will be projects that are socially beneficial and, in many cases, urgently needed. It will be necessary to reach conclusions as to how their realization can be assured (taxes, subsidies, grants, etc.).

In a broader and longer-term context, orientation toward nonfood-industry production purposes (for example, the cultivation of biomass for energy purposes) is one of the ways in which agriculture can move. However, this is dependent upon a number of factors (technical factors, technological factors, organizational factors, research, legislative factors, capital resources).

Employment

In addition to questions having to do with land, it must be anticipated that the number of people active in agriculture will continue to decline. In 1970, the number of workers in agriculture in the Czech Republic amounted to 720,000; in 1980, there were 560,000; in 1990, 491,000; and in the year 2000, the number of agricultural employees could decline significantly below 300,000. (The departure of people from agriculture causes problems involving their placement and requalification.) A similar fate will befall the relatively significant number of people active in the foodstuffs industry, engineering, chemistry, and other branches that tie in with agriculture.

It can be rationally anticipated that the standard of living of the population working in agriculture (cooperative farmers, private farmers, or hired help) will, when compared to other groups of the population, deteriorate relatively on the average. The problems in agriculture will influence the entire social situation.

Agriculture will be a branch that will be reducing the pace of the national economy as a whole. Stagnation in the consumption of food, the minimizing of consumption on the part of the agricultural population, weakened demand for agricultural machinery, chemical products for agriculture, etc. will all be exerting their influence.

There Are Not Only Economic Connections

In formulating agricultural policy, it will no longer be possible to ignore the principles of food security and self-sufficiency of the Czech state. In the 1990's, international relations will also be conflicting in character. It is also not possible to exclude the occurrence of natural events or catastrophes, which could prevent the importation of foodstuffs, etc.

In formulating the agricultural policy of the state, it is suitable to take into account not only the efficiency of our own agricultural production in comparison with the efficiency of exports of industrial goods necessary to assure the importation of foodstuffs, but also the extraproduction task of agriculture. It is possible that the development of production forces in Czech agriculture could result in greater economic and extraeconomic effects than could be achieved as a result of the above-mentioned export of industrial goods and services in exchange for the importation of foodstuffs.

Orientation toward reducing the weight of agriculture in the national economy is a process that should be directed. The formulation of medium-term and long-term agricultural policy must be based on all decisive interconnections and not just on economic factors.

Trade With U.S. Continues To Increase

94CH0172C Prague HOSPODARSKE NOVINY in Czech 11 Jan 94 pp 1-2

[Article by Martin Frydl and Kveta Subertova: "Mutual Trade Between Czech Republic and United States Is Increasing, but Czech Republic Shows Considerable Deficit"]

[Text] Bill Clinton will arrive in Prague today. It is only the second time in the history of the Czechoslovak state and the first time during the existence of the independent Czech state that a president of the United States has paid us a visit. Although this visit has above all a political content, according to Friday's statement by a senior White House official, it will play an important part in the negotiations in the capital of the Czech Republic [CR] and in improving the access of Eastern European countries to Western markets. Although the President is not bringing any concrete proposals, and understands that this is a problem for which there are no easy answers, he wants to contribute to its solution.

The basic document which regulates economic relations between CR and the United States is the 1990 Agreement on Trade Relations, which gives CR a favored nation status. In 1991 the U.S. Government also accorded CSFR the preferential customs system which applies to developing countries, and which was extended for CR until 30 September 1994. Mutual relations are also regulated by, among other things, the Agreement on Support and Protection of Investments of 1991 and the Agreement for Preventing Double Taxation (ratified on 23 December 1993).

Trade between CR and the United States shows a considerable dynamic, our newspaper was told in this connection by the director of the Department for OECD countries of the CR Ministry of Industry and Trade, Petr Postulka. In 1992 trade turnover grew by 176 percent, and reached a volume of \$684 million. At the same time, however, the trade deficit on the Czech side climbed to \$375 million. This happened because the imports (\$529 million) included the purchase of aircraft for the Czechoslovak Airlines. Overall, United States is in the 10th place among the CR trade partners. In the first 11 months of 1993, the share of the United States in our foreign trade reached 2.4 percent. Exports to the United States amount to 1.8 percent of CR exports and U.S. exports to CR amount to 2.9 percent of CR imports. The deficit in the mutual balance of trade from January to November 1993 reached \$137 million of the total trade turnover of \$522 million. If we disregard the one-time impact of the purchase of the aircraft in 1992, it appears that the CR deficit still continues to increase, said Petr Postulka.

In the structure of Czech exports to the United States the largest share is that of textiles (about 18 percent), glass (13 percent), and rolled steel (9.5 percent). According to Postulka, it would be helpful to the Czech economy if machine tools played a bigger part on the U.S. market, since consumer goods will have to face an increasingly stronger competition, especially from the developing countries. More than a quarter of the imports to CR consists of computer technology, followed by electrical conductors (7

percent), and telecommunication equipment (6 percent). CR therefore imports high technology goods which serve to modernize the Czech economy and strengthen its competitiveness.

The regulations for protecting the Czech market are liberal, but the access of Czech goods to the U.S. market is in some cases encumbered by high tariffs (for example, footwear, glass). On the other hand, for the time being Czech exporters can use the system of general customs preferences for some commodities. U.S. quotas are basically sufficient for them, and there is even the question whether, for example, the newly established quota for 800 tons of cheese will be fully used up this year, said director Postulka. Apart from cheese, United States sets quotas only for the import of woolen piece goods and ready-made clothing. The agreement on voluntary restriction of the export of steel from CSFR has not been renewed after its expiration on 31 March 1992.

Last Year's Trade Balance Shows Surplus

94CH0171C Prague HOSPODARSKE NOVINY in Czech 1 Feb 94 p 3

[Article by vac: "Last Year, the Czech Republic Balance of Trade Ended Up With a Surplus of 5.9 Billion Korunas—Exports Last Year Rose by One-Fifth"]

[Text] Prague (vac)—Last year, the balance of trade achieved a surplus of 5.9 billion korunas [Kc]. This is evident from the preliminary results of the Czech Statistical Office. Total exports for 1993 rose to Kc372.3 billion (approximately two-fifths of the gross domestic product), while imports amounted to Kc366.4 billion. Slovakia accounted for virtually 19 percent of the overall volume of foreign trade; countries with developed market economies accounted for 58 percent. The remainder is accounted for by developing countries and the countries of the former Eastern bloc.

The Czech Republic achieved a positive balance of trade with the countries of the European Union (Kc7.5 billion), developing countries (Kc13.6 billion), European countries whose economies are in transition, excluding the former USSR (Kc8.4 billion), countries having a system of state trade (Kc6.4 billion), and Slovakia (Kc9.6 billion). The balance of trade involving countries of EFTA [European Free Trade Association] was on the negative side (Kc12 billion), as was the balance involving the remaining developed nations with market economies (Kc7.7 billion) and trade involving the countries of the former USSR (Kc19.8 billion).

A significant increase developed in exports (excluding exports to the Slovak Republic because data for 1992 do not exist), which amounted to a 20-percent rise in comparison with 1992. Imports for last year, compared to the previous year, rose by only 2.7 percent. Excluding the Slovak Republic, the balance of trade remained on the negative side to the extent of Kc3.7 billion, although the current account of the balance of payments in convertible currencies was specifically on the positive side last year; for just 11 months of 1993, it amounted to \$637 million—that is, approximately Kc18.5 billion.

Chemical Waste Converted, Exported

94CH0171B Prague HOSPODARSKE NOVINY in Czech 26 Jan 94 p 7

[Article by Vladimir Plzak: "Chemopetrol Is Transforming Hitherto Undesirable Waste Material Into a Suitably Usable Export Raw Material—The New Substance Is Used in Eliminating Oil Disasters and in Purifying Water"]

[Text] The chemical plant at Litvinov has verified a technology for the production of a practically usable chemical substance from a raw material that has hitherto been an undesirable waste material. Waters contaminated with black carbon, which were a threat to the environment, are now being processed into superconductive channel black. This is a product with outstanding absorption characteristics, which has become an export item. Among other uses, the material can be used in the elimination of oil disasters and in the purification of wastewaters. Its advantage is that it is more effective than other sorbents and costs less. It has a smaller mass, which reduces the cost of transportation. Currently, it is being tested in the United States, South America, Norway, France, and other countries. Maritime interests in the United States have used it to wash out the holds of tankers.

The Chemopetrol Enterprise has shown flexibility in developing new sorbents. In one month, it changed the consistency of the material from a powder to granules. It thus eliminated dustiness, which was bothering potential users. Furthermore, the enterprise introduced packaging in smaller quantities, which facilitates manipulation and use.

Work on the project was participated in by a Swiss commercial firm that was instrumental in expanding the circle of customers. In Argentina, sorbents are being readied to eliminate the lagoons that accompany petroleum drilling. Ivory Coast has also indicated an interest in the product. The cost of using the material in individual countries is being defrayed by the Swiss firm, without requiring financial participation on the part of Chemopetrol.

Along with superconductive channel black, Chemopetrol introduced a new wastewater purification plant onto the market. Thanks to the new sorbents, the efficiency of this plant is exceedingly high. The first customer for this plant was the largest Swiss liquid waste incinerator near Geneva. With the aid of the technology from Litvinov, this facility will be able to do away with two-phase cleaning and will be able to release wastewater into the river following the first passage through the purification facility. After introduction into series production, the purification facility will cost 400,000 korunas, which is approximately one-third of the cost of existing devices with a similar capacity.

New Minister of Culture Profiled

94CH0170A Prague PRAGUE POST in English 1 Feb 94 p 1

[Article by Sophia Coudenhove: "A Ministerial Surprise"]

[Text] Journalists applauded as an earnest and soft-spoken Pavel Tigrid entered his first press conference as minister

of culture. But the first thing the 76-year-old told them was that, as a former newspaper columnist, he'd rather be sitting on their side of the table.

"I hesitated a lot," he said, adding that he had always been of the opinion that today the country should be governed by the young.

Nevertheless, Tigrid returned from Paris after almost 46 years of living abroad in time to start his new post at the ministry, Jan. 24. Since November 1989 he has made frequent visits back to Prague and served as chief advisor to President Vaclav Havel from 1990-1992.

While Tigrid's appointment as minister of culture was almost universally welcomed, it surprised artists and politicians alike. In nominating Tigrid, the Christian Democratic Union-Czech Peoples' Party (KDU-CSL) gave up their right to nominate someone from their own ranks for the post.

Party chairman Josef Lux said Tigrid, who is not a member of any party, was chosen for his skills and not for his politics.

"We absolutely respect the fact that the minister is not a member of any political party," Lux said. "We feel a closeness in our life philosophies and we perceive a closeness of opinion on basic political questions and on the world around us. This is more important than a [party] membership card."

The appointment is also unusual because, Tigrid is one of the few emigres to attain an important position in post revolution governments. But unlike many others, he has always been intimately involved in Czech politics and culture. A regular columnist for the Czech daily LIDOVE NOVINY and commentator for Radio Free Europe, he also founded the emigre quarterly Testimony, which under Communism was smuggled from Paris to Czechoslovakia.

But to Havel and many others, Tigrid's contribution to his country went much further.

"It has to be said that [Tigrid's] impact in exile was not just that he once ran Radio Free Europe and then published Testimony," Havel said on his weekly radio broadcast, Jan. 23. "His role was much broader. He was a vital integrating personality and a center of political and spiritual life in exile."

Prime Minister Vaclav Klaus also said the government supports Tigrid and sees him as a capable manager able to handle administration and to communicate with the public. He praised the new minister for his ability to work in several different fields at once, without limiting himself to one particular area.

While Havel also gave Tigrid his full support, he denied speculations that Tigrid would merely be a mouthpiece to the castle.

"Pavel Tigrid, who is loyal to the government, is loyal to the president because he is loyal to the state," Havel said. "But he is a man who has his own judgment and a man who cannot be manipulated."

Tigrid's predecessor, Jindrich Kabat, resigned Jan. 17, allegedly for personal reasons. He also said he was frustrated at tension in the government.

Klaus, however, said he did not believe these were the real reasons for Kabat's resignation. "A resignation is never a one-sided act," he said. "It's always two-sided and then sometimes from the outside the one-sided argumentation can be emphasized more." Many had expected Kabat to resign following widespread accusations of inefficiency. (see related article, page 2a [not reproduced here]).

As the reins of power are shifted from intellectuals to technocrats, Tigrid and Interior Minister Jan Ruml are the only former dissident ministers in the Czech Republic.

Promising that his aim as minister would be to serve and to listen, Tigrid also pledged maximum honesty to the press.

"This ministry will be transparent and it will be penetrable," he said, "that means I won't scheme and I won't lie much, even though sometimes that absolutely has to be. I think the ministry of culture shouldn't have any secrets whatsoever."

MDF's Popularity in Provinces Seen Growing

94P20491A Budapest PESTI HIRLAP in Hungarian
3 Mar 94 p 5

[Report on an interview with Jozsef Kaprocay, parliamentary representative of the Hungarian Democratic Forum, by Attila Nagy; place and date not given: "Is the MDF's Popularity Growing?"]

[Text] Ferenc Kulin, parliamentary group leader of the Hungarian Democratic Forum (MDF), recently said at one of his regular Friday news conferences that during the past few months the MDF's popularity has increased, especially in the provinces. What is the opinion of Jozsef Kaprocay, parliamentary representative from Szigetvar?

[Kaprocay] Before answering this question, I have to tell you that my electoral district includes 71 local governments and 85 topographically distinct areas. There are numerous very small settlements, with 50 villages having fewer than 500 inhabitants. Szigetvar's three large enterprises—the canning and shoe factories, and the state farm—are in an unbelievably difficult situation; I mention this because of the unemployment situation that has developed, which obviously has an impact on the so-called agglomerated districts as well as on agricultural production. In spite of this, as I go around among my electors, I have the feeling—and I am trying to formulate this cautiously—that we have moved from the low point of unpopularity.

[Nagy] What do you think is the reason for this?

[Kaprocay] Perhaps first is the farmers' circles movement, which is increasingly "on solid ground." Thank God, in our area during the past few months such farmers' circles have been formed in five or six settlements. The preferential machinery-purchasing drive also has had a very good effect on the people who live in villages, especially in South Baranya county, where conditions are more favorable for agriculture. I should note, however, that as far as I know, this drive has 2 billion forints at its disposal; it would be a very great mistake if it would not be possible to continually "replenish" this sum. It would cause tremendous disappointment. Thus I can say unequivocally that something has started to move. At the same time, I must emphasize that people are interested in knowing what is going on and they are starting to notice that many things have happened in this country during the past four years.

[Nagy] Do you think the media had a role in this?

[Kaprocay] Undoubtedly, although this is precisely what prominent members of the opposition parties object to. I personally object strenuously to the suggestion that this is similar to the rosy propaganda of the last part of the Kadar era.

KDNP Experts Attack Privatization Appointment

94P20462A Budapest NEPSZABADSAG in Hungarian
25 Feb pp 1, 6

[Unattributed article: "KDNP Experts Attack Lajos Csepi"]

[Excerpts] The economic committee of the KDNP [Christian Democratic People's Party] urges that immediate measures be taken in connection with privatization so that "it will be possible to at least reduce the national political and economic harm that stems from it." The document, which was treated as confidential and was put together by prominent Christian Democratic economists and financial experts, clearly states in its recommendation that "the KDNP should announce officially that it protests the fact that Lajos Csepi has been named director of the AV Rt. [State Property Management Corporation] and attempts to merge the AVU [State Property Agency] with the AV Rt., and it should demand that the organizational system remain unchanged until the election. It should also protest the planned firing of personnel at the AV Rt. and, finally, carrying out any privatization that goes beyond what was originally planned." [passage omitted]

The KDNP economic committee's announcement, which was expressed in 17 points, clearly states: "We can say unequivocally that the privatization question has been handled badly by the coalition and that this will be one of its greatest burdens in the election. This burden is made even greater by the personnel changes that have taken place recently: the firing of Szabolcs Szekeres and the naming of Lajos Csepi to take his place." [passage omitted]

According to the Christian Democrats, a drive led by the SZDSZ [Alliance of Free Democrats] lurks in the background of the government's move. [passage omitted]

Analyzing the "activities" of Lajos Csepi, the Christian Democrats emphasize that he immediately set about making personnel changes that reflected his own taste; he started firing AV Rt. workers and merging the entire AV Rt. into the AVU. "In the last months of the coalition's power, therefore, all the state enterprise assets and the entire privatization process ended up in the hand of those who follow a liberal ideology and of the former system's apparatchiks. This situation is catastrophic from the points of view of the country's economy and future, as well as from the point of view of the coalition's election prospects." [passage omitted]

Activities of Information Office Detailed

94P20482A Budapest MAGYAR HIRLAP in Hungarian
1 Mar 94 p 5

[Unattributed article: "The National Information Office Does Not Plan Any More Large-Scale Campaigns Before the Elections"]

[Text] Not long ago the Office of the Prime Minister published a brochure to describe the activities of the government during the past four years. The publication, which was prepared in a million copies, cost 26 million forints for printing and 15 million for mailing, which was absorbed by the budget of the National Information Office [NTI]. According to opposition opinions, this publication is nothing more than publicly financed election propaganda that suppresses everything negative.

NTI head Gyorgy Varga Domokos informed us in response to our questions that the cost of the brochures, which have so far been published in Hungarian and will soon also

appear in foreign languages, along with the publicity connected with their publication, has not been more than one-fifth of the office's annual budget. (The NTI's 1994 budget was 190 million forints, with additional funds left over from last year.) Discussing the timing, the office chief believes that it would not have been possible to give an accounting of four years of government activity after only three and a half years, although he would have preferred it if the brochure had appeared a few weeks earlier. Nevertheless, the publishing date was postponed because they wanted to prepare a high-quality publication that contained correct data and was "worthy of all the effort that had been put into it."

Another volume will soon appear in several foreign languages and in considerably fewer copies, which will be distributed much more narrowly, mainly to foreign embassies and libraries. This high-quality publication—which will not cost more than 8 million—will not be an account of accomplishments but is intended instead to give an overview of our country's 1,000-year history and the past four years. Both publications serve the NTI's new mission. Previously the office's main job was to continually correct the supposedly distorted international image of the country that was propagated by the press. From now on, however, the NTI wants to improve our image in the long term by providing information about our accomplishments and giving some idea of our culture. In the period before the elections, however, this was their first and at the same time their last large-scale campaign undertaking (with the possible exception of a specialized publication about the change to a market economy, which will appear in fewer copies for a narrower audience.) Nevertheless, according to Gyorgy Varga Domokos, much information should be provided both at home and abroad, because "public opinion must not be left without knowledge of our accomplishments," and it is not even possible to begin the next four-year period without drawing up a balance.

Csurka Sets Out Policy of Creating Middle Class

AU1403122494 Budapest MAGYAR FORUM in Hungarian 10 Mar 94 p 3

[Laszlo Kassovitz report: "The Offer of the Elections"]

[Text] Istvan Csurka, cochairman of the Hungarian Justice and Life Party (MIEP), was one of the speakers at the event called "Parties' Forum" in the Kaposvar County Hall.

We have peace, we do not have order, and we have stability, Csurka said, but not the kind that the country's people want because it is not based on the will of the majority of the people, and because it is not just. Order and democracy can only be built on the basis of justice and can only appear with the support of the majority. However, the current leadership does not have the people's support because the government parties, just like the opposition parties, are not implementing the programs that they announced before the elections.

Equality, of which nothing was implemented, was the great promise of socialism. Liberalism is the current promise. However, liberalism is only enjoyed by those people who

have come through with an advantage from the previous regime. For the vast majority of people, there is no freedom. There is coercion, economic coercion, because power is concentrated in the hands of the same people as before.

Two alternatives exist: the old and the new, the national and the non-national.

The MIEP belongs to the national. Our political program is to gain economic power, which can only be successful with the help of state power. If this is not achieved then the state will remain exposed to the nomenclature that was created in the previous regime.

The current leadership, including the government and the opposition, has failed. The reason has to be sought in the pacts that were used to deceive the masses.

Who has acquired the factories that are worth huge amounts of money? The banks? Who skims off from the transformation?

The privatization companies, many of which are joint ventures or foreign owned. The reason for this situation lies in the decision of the [former] Nemeth government to order that nothing could be privatized without the participation of a privatization company. In this way, he gave away the Hungarian state's revenue and profits from the change of ownership. All the enterprises of the State Property Management Corporation (AV RT) did not make as much profit as the amount that had to be paid by the AV RT for privatization.

While news of scandals in the world of banking and brokering companies are emerging, the so-called bank consolidation has started. All of them have to be relieved, one by one, of their bad debts! The only thing that is not revealed is when these bad debts arose and why the taxpayers have to bear the financial consequences.

Naturally, some of them arose in the glorious 1980's when the huge enterprises had to be supported, and they still collapsed. However, the banks are also to be relieved of those loans that they have given out since 1990. And to whom? Since 1990, the bad loans have originated from allocations to comrades. Now, Hungarian society should line up and pay for the opulence of the nomenclature, so that privatization can go ahead! This is what they want.

Therefore, the task is to break the power of the banking oligarchy. If this does not happen, all the parties can keep promising anything that is pleasant to hear, but the system will not change at all. It cannot change because it has become an integral part of the world system based on the politics of the World Bank, that demands a significant influence on the various economies and financial systems.

We have to draw up our own program. We are not living in a many centuries old economy that has developed through constant rationalization, but rather we are in a forced situation. Everyone has to be freed from this coercion; otherwise, people will never accept the current order, will not multiply, will let their territories be used by aliens,

resign themselves always to be led against their own interests, and finally disappear. This danger will remain until they have a middle class and a leadership with national sentiments.

For the emergence of this society with national sentiments, the National Basic Curriculum, which was completed as long ago as 1990, is indispensable, but the debates about accepting or, rather, rejecting it can mostly be called sabotage. Education was immediately removed from the program, and the Federation of Young Democrats was the leading force in this.

It is unimaginable for the nation not to suffer serious damage if the ranks of the Hungarian middle classes are only filled through the Soros [Hungarian-American businessman] Foundation, and the young people of those

groups of society that do not belong to this are automatically excluded. Money and state support is needed for education, and a nation state is needed to implement it. However, while the bourgeoisie that is kept in power by the World Bank defines the use of the money, very little is left for educational purposes.

Together with education, we also want to strengthen the family, the basic cell of society. We say that every mother with three children should receive the minimum wage, regardless of whether she works, until the end of her life. Other state benefits should be added to this to form the basis for her pension. All this should be added to her pension basis acquired while employed elsewhere. The precondition for all this is that society must produce people who do not have to rely on society's help in their adult lives.

Walesa Not Excluding Treaty With Ukraine*94P20440A Poznan WPROST in Polish 23 Jan 94 p 16*

[Article by Roman Strzemiecki: "Walesa for Everyone"]

[Text] As early as the middle of December 1993, President Lech Walesa readily and frequently granted interviews, thereby turning up the pressure on the West and gaining what was not to be had through diplomatic channels. The greatest splash was produced by the interviews granted to THE WASHINGTON POST, the renowned BBC, and French television. Lech Walesa warned that "life may cause us to wind up making military arrangements with Ukraine if we do not get into NATO," stating that "it is not possible to be a partner without being a participant," and ultimately, just before the meeting in Brussels, described the U.S. initiative "Partnership for Peace" as blackmail.

In December, Minister Andrzej Olechowski held many talks in Washington, trying (unfortunately, with little result) to have the "proposal for nonrejection," as the Ministry of Foreign Affairs terms Partnership for Peace, turned into an institutional precursor for entry into NATO. Recently [in January], Olechowski proceeded to Bonn, hoping for a warm response from the Germans. There, as well, unfortunately, he did not have much luck, and his reception by Klaus Kinkel was downright frosty. Despite this, he visited the Ministry of Foreign Affairs, clarifying Poland's position through publication of several articles in the opinion-molding foreign-affairs press. On 1 December, IZVESTIYA carried an article by Olechowski entitled "Poland's Concerns." Just before the NATO summit in Brussels, FRANKFURTER RUNDSCHAU carried another article by the chief Polish diplomat in which Olechowski gave assurances that "we are not afraid of Russia but, rather, of the objective situation that may push it to behave in a manner that is threatening to Poland. This situation is the security vacuum that now exists in Europe." The Polish-U.S. lobby took up the call to action in the United States.

The result of Lech Walesa's efforts was the trip made before the Brussels summit by Ambassador [to the UN] Madeleine Albright (a Czech by extraction) and the chairman of the Joint Chiefs of Staff, General John Shalikashvili (born in Warsaw), to the "Visegrad" capitals. The trip by the two politicians showed that "four" are not only going at different speeds but that the Czechs clearly indicate that they do not feel any commonality of interests with their neighbors.

Lech Walesa's closest ally turned out to be the president of Slovakia, Michal Kovac, who as early as the first part of January proposed that our countries immediately be granted "full political membership in NATO and security guarantees." The Hungarians, who did not share Walesa's angry reaction to the proposal from Albright and Shalikashvili, did not make life easy for Walesa.

Just before the Brussels summit, a real contest developed. The parliament of Bulgaria demanded that NATO treat that country the same as the "Visegrad" countries, Romania officially asked for accession to NATO, and, several days later, Algirdas Brazauskas, the president of

Lithuania, submitted a similar petition. In response to the Polish offensive, Moscow recently launched a counteroffensive. Vyacheslav Kostikov, spokesman for President Yeltsin, stated that admitting the countries of Central Europe into NATO would bring the Russian reforms to a halt. The Russian Army "would be furious," and Russia "would have to form its own military-political bloc."

Pawlak's First Hundred Days Evaluated*94P20429A Warsaw TYGODNIK SOLIDARNOSC in Polish 4 Feb 94 pp 1-2*

[Article by Stanislaw Marek Krolak: "The Soul Would Like To Be in Paradise"]

[Text] A hundred days is too short a period of time to sum up the Cabinet activities but long enough to notice main trends. At this point, Pawlak's government is in power three times longer than his prime ministership following the fall of the Olszewski government. We recall this incident not without reason. One can clearly see the continuation of the same political line: the tendency to obliterate divisions between the Polish People's Republic (PRL) and Poland as it is now, and a departure from all promises given during the election campaign.

The defeat of post-Solidarity parties and the poor showing of the BBWR [Nonpartly Bloc in Support of Reforms], the presidential party formed in such a hurry, in the 19 September elections allowed the left to legally take power and form a government. It seemed to some people that one had but to look to see the slogan "All power in the hands of the people's councils" [a communist-era slogan]. "There was no lack of people who scared others with the return of communism. Nothing of that sort happened because it could not happen. But it does not mean that nothing happened. The most important threat is not the return of a sinister ideology that is still claiming victims in the Balkans and the Caucasus but, rather, the final legalization of the succession inherited from the PRL. Erasing dividing lines between the thief and his victim, betrayal and patriotism, independence and subordination to a foreign power must sooner or later influence the country's defense and society's bearings.

The Comrades Are Returning

The first signal given to the owners of People's Poland that it was time to return to the scene was sent as soon as 26 October at the swearing-in ceremony of Pawlak's government in the Belweder [the presidential residence]. Leszek Miller, the representative of the "beton" [hard-liners] in the PZPR [Polish United Workers Party] (communist party), who is, together with Rakowski [Mieczyslaw Rakowski, the last first secretary of the PZPR], accused of illegal money dealings with the Soviets to finance the 1989 elections, became a minister. This could appear to be an incident—the price Pawlak had to pay because Kwasniewski was too weak to pacify Miller's supporters in his own party. Today, unceremoniously, Miller accuses Solidarity of illegally receiving money from the West. The fact that the attorney general is his colleague from the SLD [Democratic Left

Alliance] is of lesser importance. What is important, however, is that today there are many such Millers. They are in the government, in the central administration, and in the voivodships. The best example may be that of Ireneusz Sekula. This decision on the part of Waldemar Pawlak symbolically closes the period of transition that began after the 1989 elections. It would be hard to find a clearer political message for a population that was under communism for 45 years. Sekula, appointed president of the Main Customs Office, was, in Rakowski's government, responsible for the creation of a legal base that allowed for the enfranchisement of the *nomenklatura*, and he himself is today a beneficiary of that decision. Pawlak's government seemed to be saying, paraphrasing president Walesa, "Comrades, the time of pretending that we are not here is over," and "Take power into your own hands." In such a situation, should one be surprised that local apparatchiks of the coalition government are throwing out voivodes in order to take over their jobs? This process is not merely the replacement of one group of people by another. The clientele of the SLD and the PSL [Polish Peasant Party] [the two parties in the governing coalition] throughout the years has gotten so accustomed to sinecure and power that to try to stop this wave could cause mutiny in its own party ranks. From the perspective of local, presidential, and eventually parliamentary elections, the state interest must lose with the interest of the party. For this reason, Pawlak postponed the county (*powiaty*) reform, hoping to distribute these seats after successful elections in June.

This whole process is, in a way, completed with the return of higher security officials to the departments directly responsible for state security. The ridiculed and discredited idea of vetting has died, and it is doubtful that it will ever have another chance. Fortunately, there are no longer any Russian garrisons in Poland that served as centers for espionage. However, foreign press information that our country is an object of strong intelligence penetration confirms fears that foreign agents may still, in an essential way, influence the decisionmaking process in Poland.

Cynical Treatment of the Electorate

The slogan "It doesn't have to be like this anymore" [the main SLD election campaign slogan] turns out to be only a campaign promise. The SLD treated its own electorate rather cynically, while the PSL, often in good faith, was promising farmer paradise without consideration for what the state could deliver. Both of these parties do not know how to fulfill these declarations. That demagoguery ended soon after these parties won the elections, and the slightly embarrassed Pawlak stated in the Sejm that he must continue the policy of the previous governments. It is good, obviously, that the government does not intend to destroy what the other governments accomplished during past four years. But what is troublesome is the fact that, in the programs and actions of Pawlak's Cabinet, there are no new ideas that would stimulate faster growth. In the explanatory statement to the draft budget law, there is no trace left of the preelection rhetoric on the tragic recession, growth stimulation through higher inflation, radical changes in the exchange rate of the dollar, or increased emission of the

currency in order to cover social expenses. On the other hand, the clearly visible tendency in 1993 of an improvement in the state of public finances greatly eased the way for the start of Prime Minister Pawlak's government. However, because the minister of finance came to the conclusion that further balancing of the budget by means of cutting expenses was not possible, budget revenues and outlays were enlarged. From the current year's tax law, we know whence the revenues are to come. Above all, those who voted for the left will pay for them: consumers and small businesses. "You wanted new people in power, so you have it," one would like to say, if it were not for the fact that here we are talking about the poorest layers of society.

Who in Reality Has Power?

Waldemar Pawlak seems to be aware of the danger of an outbreak of social discontent. The prime minister's expose just before the end of the year can be read as an expression of anxiety, that matters are not following the earlier forecast. This begs the essential question: Who in this Cabinet has the deciding voice?

Already the battle surrounding the placing of people in certain ministries (when Waldemar Pawlak withdrew certain people from the list of names given to the president and replaced them with SLD names) proves that nothing of importance can occur without Aleksander Kwasniewski's approval. I do not claim that the SLD leadership fulfills the role of a Politburo in relation to Pawlak's government. However, there is no doubt that it is precisely this party [SLD] that makes the strategic decisions. The SLD consistently guards the interests of the PRL *nomenklatura*, which now has time for an undisturbed strengthening of its position in the economy. Taking over economic control of the country's economic life, which was allowed by the previous governments under the rulings of this present Cabinet, will result in broadening and such a strengthening of the structures that no changes will be possible in the future. The fundamentals of privatization as proposed by Minister Kaczmarek constitute but one example of such a policy. The forecast of Lech Mazewski, associated with the liberal circles of the previous governments, that we are moving toward a South American type of capitalism, where a very narrow group of people control the whole economy, appears to be closer to realization. This will support the formation of a new arrangement on the political scene. In the new political configuration, there may be found liberals from the SLD, the KLD [Liberal-Democratic Congress], and UD [Democratic Union]. The process of rapprochement of former political adversaries will demand time and will depend on both the presidential elections and the behavior of the Solidarity groups now outside parliament. But the common economic interest, the similar liberal views ideologically, and the fact that they share the same electorate will lead to unity and ignoring biographical differences.

The Force in Adapting Oneself

The strength of Waldemar Pawlak's government is in accepting the strategy of accommodation. This government does not wish to antagonize either the opposition, the

president, foreign relations, or the mass media, or even the church, whose support it seeks, wishing to create the impression that it is the only political force defending national traditions and Christian values. Such a strategy may bring success under the condition that it will not be necessary to seek support from the electorate. In the meantime, the presidential election will take place in two years' time [late 1995]; this election designates the time frame in which the government will have to account for its actions to date. In this time frame, the difference in PSL versus SLD interests will become clear. Both Aleksander Kwasniewski and Waldemar Pawlak dream about the Belweder. The altercations with Lech Walesa are thus unavoidable. Prime Minister Pawlak has no need to hurry. He is counting on the fact that time is on his side. He can wait—under the condition that the possible failure of the government will be blamed on the coalition partner [the SLD]. But Aleksander Kwasniewski has to play the same game. He looks after the businessmen but courts the electorate; he does not attack the church, but he pays careful attention to the activities of Barbara Labuda [UD deputy, who is outspoken in her support of abortion rights]. Both Pawlak and Kwasniewski have to keep in mind the fourth presidential candidate—without knowing yet who this person will be, other than Lech Walesa. How this game will end, it is hard to forecast at this time. If it is true, as Jacek Soska [PSL deputy] claims, that Waldemar Pawlak has no intellectual capacity at his disposal, his government is working not for him but for Aleksander Kwasniewski.

Provisions of 1994 Budget Draft Discussed

94EP0041A Warsaw POLITYKA in Polish No 2, 8 Jan 94 pp 1, 13

[Article by Jerzy Baczynski: "Left Side, Right Side"]

[Excerpts] [Passage omitted] When ministers dispute how to apportion budget outlays, it means that it is the last stage of work on the budget. The basic framework of the budget is created by professionals at the Ministry of Finance (in cooperation with the Central Planning Office and the National Bank of Poland). It usually begins with an analysis of the current economic conditions, a forecast for the next year, and determination of the so-called fixed obligations of the budget. Only then is superposed a grid of political and economic priorities that can be debated. Any breach of this logic or any major error of the forecast can lead to a crisis of public finance. We have experienced such crises on our own skin; in the last few years the real world of the budget kept diverging from the assumptions.

The Minister's Dream

Errors could not be avoided in 1993 either, although this time they were positive errors, such as every minister of finance dreams of. Last year budgetary receipts were more than 4 percent (17.5 trillion zlotys, or Z17.5 trillion) higher than planned, while outlays were 2 percent (Z10 trillion) lower, and the deficit is certain not to exceed Z60 trillion instead of the anticipated Z81 trillion. These surprisingly good results were due chiefly to higher receipts from the personal income tax and a decline in the number of old-age pensions and annuities as well as the delay in revaluing

them, along with lower outlays on servicing the foreign debt (a decline in interest rates, absence of an agreement with the so-called Club of London), and... the known difficulties in financing the budget deficit. At any rate, H. Suchocka's government bequeathed to its successors an underutilized "deficit cap," meaning that the growth in domestic debt was less (by Z28 trillion) than expected. When speaking of the dramatic condition of public finance it should also be borne in mind that in October 1993, for the first time in a long time, there was a budget surplus and in November the budget was balanced. Hence, a definite trend toward an improvement in public finance arose in 1993, which greatly facilitated the start of the new government under Prime Minister Pawlak.

Likewise, the economic situation in 1993 (despite the unemployment and a negative balance of foreign trade) warrants an optimistic forecast for 1994. According to the recent report of the Central Planning Office, for 1993 industrial output will be 7 percent higher than in the preceding year; foreign trade began finally to improve as of last October (owing to the August devaluation); and the financial performance of enterprises and their possibilities for raising wages also are better.... Were it not for November and December, when food prices soared, inflation would remain at the planned level. [passage omitted]

The macroeconomic assumptions for 1994 of W. Pawlak's government do not diverge from those announced earlier by the previous government: That is, a 4.5 percent increase in the GDP; 27-percent inflation (23 percent as measured from December 1994 to December 1993); a faster increase in exports (6 percent) than in imports; the maintenance of a creeping (in measure with the inflation) devaluation of the zloty; a limited growth of unemployment (to up to 190,000); and maintenance of civil-service salaries at the level of 91 percent of the wages paid in the private sector. We can thus expect a peaceful continuation and strengthening of positive tendencies in the economy. Fortunately, the rationale of the 1994 budget law contains no trace of the campaign rhetoric about the tragic recession, the need to stimulate growth by spurring inflation, a radical change in the exchange rate of the dollar, or printing more money in measure with the perceived social needs. As Deputy Prime Minister Borowski said recently in the Sejm, "Life has taught everyone to distance himself from promises and to perceive the reality humbly."

Five Priorities

I emphasize that the 1994 budget is largely predicated on continuing the economic policy of the preceding government, although that is certainly not politically convenient to the new government. But since I myself, following the elections last September, had expressed fears that the new government might "go on a rampage" and thus risk economic stability, I wish to state now that the government of Waldemar Pawlak is displaying a commendably realistic and responsible attitude. This does not at all mean that the 1994 budget draft lacks some leftist emphasis that clearly reflects the change in political priorities.

When speaking of the 1994 budget, Deputy Prime Minister Borowski mentioned five assumptions on which its final draft was based:

- Halting the decline in outlays on government operation. This concerns increasing civil-service salaries to keep in step with the inflation and maintaining the real value of material expenditures.
- Strengthening the protection of the neediest by, among other things, increasing expenditures on welfare, raising the minimum old-age pensions and annuities, and providing funds for so-called housing allowances.
- As to restructuring the economy, providing the funds needed for social protection due to the shutdowns of unprofitable mines, maintaining arms industry plants in operation by giving them government orders, building roads and highways, and providing debt relief for enterprises and banks.
- Stimulating the economy by broadening investment tax relief; promoting exports and investments by, among other things, providing government loan guarantees and credit insurance.
- Providing the funds needed to successfully complete the steps being taken to reduce foreign debt and to utilize foreign capital more efficiently.

It is worth noting that these five priorities differ from the traditional so-called branch priorities. Thus, they make no mention of any privileged treatment of, e.g., education, culture, or health services, and neither are there any points devoted to agriculture, national defense, or the police. The proposed priorities are certain to meet with criticism from many deputies lobbying for the interests of their constituencies, but at the same time, on resorting to the transfer method, they should make for easier discussion with representatives of branch interest groups.

However, an important provision is missing from the above enumeration, and this casts a huge reflection on the shape of the 1994 budget. Namely, the minister of finance has earlier declared, "The possibilities for balancing the budget by slashing expenditures are exhausted." As a result, the most characteristic feature of the 1994 budget will be a considerable increase in the outlays and receipts of the state.

Receipts, Outlays, and the Deficit

The 1994 budgetary receipts are envisaged at Z610 trillion, i.e., 35 percent more than in 1993, or, in real terms, after allowance is made for price increases, 6.5 percent more. As for budgetary outlays, they are envisaged at Z693 trillion, which means a nominal increase of 37.5 percent, or an increase of 8.3 percent in real terms. Hence, the planned budget deficit is to amount to Z83 trillion compared with, let me point out, Z60 trillion in 1993.

We already know more or less where the higher receipts will come from. Chiefly from taxes: This year the government

intends to collect Z506 trillion from taxpayers, compared with Z363 trillion in 1993. Thus, we have new income tax rates, the lump-sum tax payable by small businesses, the extension of the VAT to businesses with incomes of more than Z1.2 billion a year (previously the minimum level was Z4 billion), and the restrictions on certain tax exemptions and relief. The brunt of financing the greater obligations of the state budget will be borne by consumers and small businesses.

On the expenditures side a special place is occupied by servicing the foreign debt (Z30 trillion) and the domestic debt (Z82 trillion). The nation's total foreign debt in 1993 was about Z1,000 trillion, and domestic debt Z360 trillion. Fortunately, we are servicing our foreign debt only partially, but even so, taken as a whole, the burden of servicing both the domestic and the foreign debt will consume as much as 16 percent of all budgetary outlays. To the government this is a warning to desist from hastily contracting any more loans for financing budgetary outlays and to utilize foreign credit rationally. Of the Z693 trillion in outlays, after the outlays on debt servicing are deducted, there remains about Z580 trillion, of which Z362 trillion is to be spent on civil-service salaries and similar government expenditures.

In the budget draft the expenditures are listed in several hundred tables. In view of the occasional differences in calculating techniques, not all the figures are directly comparable with the expenditures in 1993. Even so, assuming the classical breakdown by ministries, the largest beneficiaries of the 1994 budget are the ministries of: labor and social welfare (outlays higher by more than one-third), transportation, foreign trade, and science. On the other hand, lower than average outlays are planned for construction, communications, higher education, the judiciary, public security, and national defense. Education will be given somewhat more money (relatively speaking) than health care. As regards the kinds of outlays, those increasing the most are, in addition to debt servicing, the outlays on housing loan guarantees (increased to Z7 trillion from Z2.6), the mortgage credit fund (to Z800 billion from Z100), expenditures on industrial restructuring (to Z6 trillion from Z2), and on old-age pensions and annuities for the defense ministry's personnel, and chiefly on subsidies for social security (to Z140 trillion from Z104). This listing reveals quite unambiguously the priorities of the current government.

In any budget debate—and this time it will not be otherwise either—the question of how realistic the budget is must be raised. The 1994 draft budget seems to be very tightly stretched. The figures on planned tax revenues seem rather optimistic, as do the possibilities for financing the deficit, especially in view of the unbending attitude of the National Bank of Poland [the central bank], which has offered only Z30 trillion to support the budget. The inflation rate envisaged for this year seems rather optimistic, even if assuming slower price increases—and higher inflation may make shambles of the entire budget. In its turn, the marked increase in the tax burden may affect adversely investment

and the growth in personal consumption, thus slowing down the anticipated rate of economic growth. Furthermore, the need to finance the high deficit may reduce the supply of credit available for the economy. The perils involved in executing such an expansive budget are numerous—and in this case, unlike in politics, the left side (receipts) must always be in accord with the right (outlays).

In brief, the government has undertaken a risky attempt to increase public expenditures, motivated by important social considerations. Still, contrary to many previous fears, the presented draft budget does not exceed the limits of permissible political corrections, even though it is very close to the limit of economic safety.

Outlays of the State Budget

	1993 in Billions	1994 in Billions	1994-93 in Per- cent
Total	504,039	693,000	137.5
Subsidies for state enterprises	20,117	23,990	119.3
Debt servicing			
Foreign debt servicing	2,830	29,786	232.2
Domestic debt servicing	47,512	81,913	172.4
Bank settlements	14,198	19,885	140.1
Outlays on social security	104,175	140,903	135.3
Current government expenditures (civil-service salaries, etc.)	270,494	361,766	134.0
Material outlays	23,671	28,867	121.9
Subsidies for local governments	11,042	5,490	49.7
Reserves of the Council of Ministers	—	400	—

1994 Budget Receipts—Z610 Trillion (in trillions of zlotys)

Tax receipts	Z505.9
Indirect taxes	Z235.2
Personal income tax	Z157.4
Corporate income tax	Z81.2
Tax on wage increases	Z5.0
Import tax	Z22.9
Other tax revenues	Z4.2
Receipts from privatization	Z12.3
Nontax receipts	Z91.7
From state enterprises	Z13.7
From customs	Z45.2
From National Bank of Poland profits	Z19.5
From "dividends" (levy on assets of state enterprises)	Z8.0
From other sources	Z5.3

Weekly Criticizes Protectionist Position

94EP0048A Poznan WPROST in Polish No 9, 27 Feb 94 pp 25-27

[Article by Andrzej Zybała: "Poland Behind the Wall: The Government Intends to Jack Up Duties on Farm Products in Order To Reduce Them Later From a Higher Level and Still Follow the Decisions of GATT's Uruguay Round"]

[Text] Polish duties are three to four times as high as those applying in West Europe and the United States. We protect our market more strongly than do Hungarians and Czechs. Contrary to the comments of PSL [Polish Peasant Party] Sejm deputies, Polish borders are not at all wide open.

In the West, the average duty rate at present is 4 percent, while in Poland it is more than 10 percent. Even so, the developed countries decided that their duty rates are too high for trade to become a genuine locomotive of the world economy. During the seven-year-long Uruguay Round, which was completed in December 1993, it was decided that, in the next few years, the average duty rate would be reduced to less than 3 percent and all trade restraints in the form of countervailing fees, border taxes, etc. would be abolished. According to experts, this will cause world trade to increase by \$200-300 billion. According to the OECD and the World Bank, the principal beneficiaries of the new trade agreement, which will begin to be binding as early as at the beginning of 1995, are, however, to be the developing countries, which in the next few years will earn an additional \$130 billion. Soon now, sharp rivalry over dividing up that substantial sum will begin. Yet, at the same time, Polish industry and farming, instead of getting ready to expand, are seeking security by advocating higher duty barriers.

Following a temporary slash in Polish duties to a level not much higher than in the West (5.5 percent), they were jacked up since mid-1991 to levels several times as high as in the West—as high as 18.8 percent. The tariff increases applied chiefly to the least transformed [i.e., least adapted to market reforms] industries, such as textile, footwear, and food. Thus, duties of as much as 20 percent became levied on consumer goods, 20-35 percent on farm products and textiles, and 45 percent on luxury goods. According to Tomasz Jodko, director of the Department for Multilateral Agreements at the Ministry of Foreign Economic Relations, this whole subject is beset by inconsistency. Sometimes the failures of certain branches of the economy are blamed on high interest rates and sometimes on supposedly low tariff duties. It is symptomatic that increases in tariff duties are considered when miners strike.

Yet, after World War II, the liberalization of trade became the principal locomotive of world economic growth. The seven previous GATT rounds have resulted in an eightfold reduction of duty rates, and, in the years 1950-75, this resulted in a fivefold growth in the volume of world trade, along with growth of the generated world product. In 1982, when world trade grew by only about 3 percent, generated world product diminished by 2 percent. In Belgium and the Netherlands, trade accounts for more than 70 percent of the gross national product [GNP]. In contrast, in Poland,

foreign trade accounts for barely 20 percent of the GNP. And this proportion is going to be even lower now that the government wants, contrary to worldwide trends, to surround Poland with a tariff wall.

Since 1991, protection of domestic products has been increasing not only through duty raises, which account for 70 percent of its extent. Toward the end of 1992, a 6-percent border tax, levied on the value of merchandise plus duty, was introduced. Moreover, the basis for levying duties was augmented by including the cost of transportation and insurance. In this connection, unlike in the West, the successive Polish Governments arrogated to themselves rather than to the parliament the power of fixing duty rates. As if on purpose, they provoked pressures from various interest groups. In the years 1990-91 alone, the government revised more than 90 implementing acts. It was only after signing the Association Agreement between Poland and the European Union and owing to the understanding with GATT that the government lost the power to manipulate duty rates for about 75 percent of goods. [From now on] tariff revisions will require GATT consultation, but it is hard to say whether that will cool the fevered temperament of the Polish farm lobby.

Yet estimates of the Institute for Business Cycles and Foreign Trade Prices (IKCHZ) indicate that the liberalization of tariffs owing to the Association Agreement between Poland and the European Union will contribute to increasing Poland's foreign trade revenues. In the next few years, exports of Polish manufactured goods alone should increase by about \$70 million. To be sure, Professor Elzbieta Kawecka-Wyrzykowska of the IKCHZ admits that it is not much, but, still, tariff liberalization affords a tremendous opportunity for the Polish economy.

She commented, "Polish exports by now are impeded not so much by customs barriers, which are low, with the exception of farm products, as by their intrinsic weaknesses."

As if that were not enough, we are not utilizing export quotas—i.e., the opportunities for selling goods on European markets at preferential duty rates. This applies chiefly to farm products. For example, Polish exporters sold only 4-10 percent of the permissible quantities [under the quotas] of pork and potato starch, and even smaller amounts of butter, cheese, eggs, and chickens. As for sales of, for example, live geese and their eggs, they are impeded by a strange regulation—namely, the Ministry of Agriculture has prohibited the exports of live geese because it dreads duplication of Polish breeding stock abroad.

Had other countries followed the same mentality, the invention of television or computers would not to this day be a widespread boon.

Concerning the growth in exports owing to tariff liberalization, Andrzej Byrt, deputy minister for foreign economic relations, is much more optimistic. He estimates that the ending of the Uruguay Round will result in a \$1-billion annual increase in our exports. At the same time, Poland's GNP will grow. But that hardly sounds plausible because,

in Poland, duty rates are viewed as a means of not only getting rid of [foreign] competition but also of enriching the state coffers. Thus, while in recent years budgetary receipts from customs duties have been rising, Poland's participation in world trade has been declining. Too many overprotected sectors of the economy have remained impervious to market reforms. Thus, while as recently as in 1991 customs duties accounted for 3.7 percent of budgetary receipts, a year later they soared to 27 percent. In 1992, the budget earned 27 trillion zlotys [Z] (Z27 trillion) in receipts from customs duties alone or, when receipts from the border tax are included, Z46.5 trillion. In 1993, these receipts doubled. The duties levied have caused major increases not only in the prices of imported finished goods but also in the manufacturing cost of many domestic goods produced with imported raw materials. In the cosmetics industry, many plants have to import as much as 70 percent of ingredients. Moreover, duties also are levied on goods and raw materials not produced in Poland. For example, there is a 10-percent duty on video cameras and on many ingredients used in the manufacture of cosmetics—for example, on basic detergents for shampoo production (15-percent duty) or on cosmetic packagings (also 15-percent). All the more so considering that, in Poland, unlike in the West, the differences in the size of duties levied on semifinished products and raw materials and those levied on finished products are not appropriately wide.

In some cases, such duties are even the same—for example, for wine imported in bulk and for bottled wine. This is causing problems for Warsaw Imported Wine Cellars and six other similar establishments. As a result, imports of wine in cistern tanks have almost completely ceased, and bottling plants had to lay off hundreds of employees. By the same token, the consumer is condemned to pay higher prices for wine imported in bottles.

Prof. Kawecka-Wyrzykowska said, "Our biggest losses will come as our economy becomes a bigger mess and further loses its competitiveness." She added that, to be sure, farmers are accusing the government of failing to protect the food market, but, were not it for the imports, we would certainly be still waiting a long time before being able to drink milk or yogurt in colorful packagings. Jolanta Zombirt, adviser to the Government Commissioner for European Integration, said, "Sometimes initial losses have to be risked in order to join the company of the economically strongest countries. We would thus gain the cachet of a safe country, in which European customs regulations are binding. To the potential foreign investor, this would mean a guarantee that Poland is not some banana republic and will not, unlike it has been doing until recently, keep changing its customs regulations overnight."

Although duty rates have been fixed in international agreements, the government is exploring the possibilities for bypassing them. Apparently it has stumbled on such possibilities as regards farm products. To be sure, it has presented a proposal for reducing duty rates by one-third in accordance with the GATT agreement, but, at the same time, it is raising them to make up for having to abolish other fees (e.g., countervailing fees) under the agreement, so that the prices of imported merchandise are certain to rise.

For example, the duty on butter will be 140 percent after the countervailing fees and the border tax are abolished, whereas, at present, it is 40 percent. The duty on wheat is to

be doubled. The government intends to raise duty rates in order to reduce them later from a higher level and still look like it is following the decisions of the Uruguay Round.

Poland's [Foreign] Trade
(in billions of \$)

	1990	1991	1992	1993*
Total Exports	14.3	14.9	13.2	10.6
Of which: To European Community	6.8	8.3	7.8	6.7
To countries of Central-East Europe	3.0	2.5	2.0	1.4
To developing countries	1.9	1.4	1.7	1.3
Total Imports	9.5	15.5	15.9	13.9
Of which: From European Community	4.3	7.7	8.3	7.8
From Central-East Europe	2.1	2.9	2.6	1.7
From developing countries	1.0	1.9	1.8	1.8

* For the first three quarters of 1993.

Average Duty Rates
in Industrialized Countries
(in percent)

1940	40
1950	25
1960	17
1970	12
1980	7.5
1990	5
2000	2.5

Source: GATT

Agriculture Minister on Expectations From GATT
MB2402143794 Johannesburg SAPA in English
1334 GMT 24 Feb 94

[Text] Pretoria Feb 24 SAPA—South African agricultural products should have greater access to the most important foreign markets because of the provisions of the General Agreement on Tariffs and Trade (GATT), Minister of Agriculture Kraai van Niekerk said on Thursday [24 February]. There would also be a general shake-up in local agriculture as export subsidies and domestic support were reduced.

Addressing the Agricultural Outlook Conference in Pretoria, Dr van Niekerk said the conclusion of the Uruguay Round should lead to an increase in world prices of agricultural products. "This will strengthen the comparative advantage of South African products on the world and domestic markets."

Dr van Niekerk said the country would gain many advantages from its recent admission to the UN's food and agricultural organisation and other bodies.

Onderstepoort was to become a cooperation centre for Africa, and South Africa would host the World Veterinary Association congress later this year.

He said the cabinet had in principle endorsed the guidelines contained in the report of the Agricultural Marketing Policy Evaluation Committee which recommended one agricultural marketing policy to serve the commercial and developing sectors and provide market access for both. Dr van Niekerk said continued single-channel marketing schemes and marketing boards for commodities could not be ruled out. But all marketing systems would have to be transparent, supported by all those involved and applied without political interference.

Agency for Restructuring Established

94P20494A Bucharest MONITORUL OFICIAL in
Romanian No 22, 26 Jan 94 p 2

["Text" of Decision No. 780 on the Establishment of the
Agency for Restructuring]

[Text] The Government of Romania has decided:

Article 1—For the purpose of restructuring commercial
companies financed mostly by state capital which are of
special importance for the national economy, the Agency
for Restructuring is established as part of the Council for
Economic Coordination, Strategy, and Reform, as of 1
January 1994.

The annual budget of the Agency for Restructuring is
included in the budget of the General Secretariat of the
government.

The headquarters of the Agency for Restructuring is at 152
Calea Victoriei, Sector 1, Bucharest.

Article 2—The Agency for Restructuring has the following
duties:

a) it coordinates the restructuring of commercial compa-
nies financed mostly by state capital, selected by the
Council for Economic Coordination, Strategy, and Reform
together with the State Property Fund, upon the recom-
mendation of the ministers;

b) it coordinates the performance of diagnostic-analysis
work in drafting programs for restructuring selected com-
mercial companies;

c) it submits to the government for approval programs for
restructuring selected commercial companies, upon the
recommendation of the Council for Economic Coordina-
tion, Strategy, and Reform together with the State Property
Fund, and transmits them, for implementation, to the
Directorate for Selective Restructuring established for this
purpose in the State Property Fund;

d) it reports to the government on the progress of the
process of restructuring commercial companies which have
been selected on the basis of the agency's own analyses and
reports, transmitted on a monthly basis by the Directorate
for Selective Restructuring in the State Property Fund and
by the ministries and other bodies;

e) it carries out other tasks assigned by the government
related to the restructuring process.

Article 3—The Agency for Restructuring is headed by a
chairman and a deputy chairman who are paid the salary of
a state secretary and a state undersecretary, respectively.

The Agency for Restructuring has a board of directors
consisting of a chairman and a representative from each of
the following public institutions: the Council for Economic
Coordination, Strategy, and Reform, the State Property
Fund, the Ministry of Industry, the Ministry of Finance, the
Ministry of Labor and Social Welfare, the Ministry of
Research and Technology, the National Bank of Romania,
and the Romanian Commercial Bank, Ltd.

The chairman of the Agency for Restructuring is also the
chairman of the Board of Directors.

Article 4—The Agency for Restructuring has 75 positions,
including 60 for specialists, who are taken from the minis-
tries and other specialized organs of central public admin-
istration. The organizational structure of the agency is
given in the attachment.

Article 5—Data processing projects which are necessary for
the activity of the Agency for Restructuring will be carried
out by the Institute for Management and Data Processing
in the Ministry of Industry.

Article 6—The following sources of financing will be used
for the restructuring of the selected commercial companies:

—funds allocated from the budget of the State Property
Fund, earmarked for this purpose, according to the
law;

—foreign credits for restructuring guaranteed by the
Government;

—funds received from foreign financial assistance, for
restructuring;

—credits provided by banks, with state guarantee, and
given by the Ministry of Finance on the basis of
feasibility studies prepared by the selected commercial
companies.

Article 7—On the basis of the present decision, the com-
mercial companies specified in Attachment No. 1 to Gov-
ernment Decision No. 301/1993 will be included in the
restructuring program of the Directorate for Selective
Restructuring of the State Property Fund.

Article 8—The Directorate for Selective Restructuring has
a separate budget from that of the State Property Fund and
its own account.

Article 9—Regulations on the organization and operation
of the Agency for Restructuring will be drawn up and
submitted for approval to the Council for Economic Coordi-
nation, Strategy, and Reform, the Ministry of Finance,
and the State Property Fund within 30 days after the date
that the present decision goes into effect.

Article 10—Article 4 and Attachment No. 3 to Govern-
ment Decision No. 515/1993, with subsequent modifica-
tions, are amended and supplemented correspondingly.

Article 11—The Ministry of Finance, the Ministry of Labor
and Social Welfare, and the State Property Fund will take
the necessary measures for the application of the present
decision.

Prime Minister Nicolae Vacaroiu
Bucharest, 30 December 1993

Decision No. 780 Attachment

The Agency for Restructuring has the following structure:
chairman; deputy chairman; Directorate for Methodology
and Synthesis; Directorate for the Preparation of Restruc-
turing Programs; Directorate for Analysis, Diagnostics;
Evaluation of Sources of Financing and Foreign Technical
Assistance; Directorate for Financial Correlations and
Public Relations.

SNS Divisions Before Zilina Congress Explored

94CH0169B Prague PRAGUE POST in English
1 Feb 94 p 4

[Commentary by Bill Reynolds: "Party Weakens Slovak Coalition"]

[Text] With the stability of Slovakia's governing coalition hanging in the balance, the fight for control of the Slovak National Party (SNS) entered a decisive phase mid-January as the two warring factions began gearing up for next month's party congress.

SNS Chairman Ludovit Cernak is battling Deputy Chairman Marian Anzel and Honorary Chairman Jozef Prokes for the support of SNS delegates from across Slovakia. The delegates will attend a special Feb. 19 party congress called to resolve the leadership conflict.

Jozef Hrabina, a former party secretary, said there were two possible outcomes of the power struggle: the party would split, or one faction would simply leave.

The key to victory lies in successfully influencing the delegates, Hrabina said. "The rank and file base their opinions on the information they get from the top."

The SNS has been the junior partner in the Slovak government since October, when Anzel and Prokes dragged a reluctant Cernak into a coalition agreement with Premier Vladimir Meciar's ruling Movement for a Democratic Slovakia (HZDS). With 14 seats in parliament, SNS provided Meciar's government with a bare majority in the 150-seat Slovak parliament. The rift within the SNS, however, has rendered the coalition virtually unworkable.

Cernak, who is engaged in a year-old personal feud with Meciar, charged Anzel, Prokes and other colleagues with blindly following HZDS in exchange for power. In turn, Cernak was attacked for allegedly holding secret talks with ethnic Hungarian politicians to topple the government.

The breaking point came Dec. 21, when Cernak and five other SNS parliamentary deputies voted against Meciar's 1994 state budget. Cernak and his loyalists then formed the "National Democratic Club" of SNS, sealing the breach within the party.

The faction led by Prokes and Anzel gained the upper hand on Jan. 15, when the SNS Central Council passed—by 29 to 15 with eight abstentions—a no confidence vote in Cernak. The council also dismissed several deputy chairmen and accepted the resignation of SNS General Secretary Igor Uhrík, who later accused Anzel and Prokes of "slavishly" supporting Meciar.

After Cernak rejected a request that he resign, the council called the special congress, to be held in Zilina, north Slovakia, and adopted a resolution lamenting the party's divisiveness, "at a time when Hungarian irredentists in south Slovakia are jeopardizing our country's integrity."

A party press conference following the Jan. 15 session only served to aggravate the split. Prokes said Cernak's on-and-off support for the coalition was hurting Slovakia's international credibility, while Cernak reiterated his doubts about the coalition's ability to function.

Cernak kept up the fight last week when his parliamentary deputies' club introduced an amendment to the privatization law aimed at preventing the "accumulation of economic and political power." Specifically, the amendment would separate the positions of privatization minister and chairman of the National Property Fund, both currently held by Meciar.

After Meciar steered the country through the breakup of Czechoslovakia at the end of 1992, the SNS, which advocated Slovak independence, has been cast adrift. Bereft of a unifying cause, the party has fished about for a new program while continuing to criticize Hungarian leaders in both south Slovakia and Budapest. The SNS now officially defines itself as a "left-of-center party with a social dimension."

The Slovak press generally views Prokes and Anzel's faction as the probable victor at the Zilina congress. The trade union daily PRACA sees Meciar as the ultimate winner in the scenario, sweeping the political base out from under his enemy Cernak.

The opposition paper SLOVENSKY DENNIK said Cernak's apparent strategy of keeping the SNS united by entering into the coalition while at the same time trying to remain independent of Meciar's political whims had been wishful thinking and a political illusion.

Prospects of HZDS Becoming Mainstream Party Weighed

94CH0167B Bratislava NOVE SLOVO BEZ
RESPEKTU in Slovak 10 Jan 94 p 2

[Commentary by Jan Sopoci: "What Will a Year Bring?"]

[Text] According to many a political observer, this year the crystallization of our political scene in the form of the "definitive" incorporation of the "broad-spectrum" Movement for a Democratic Slovakia [HZDS] is to become a decisive factor. In the face of increasing "unification" of the activities of the chairman of the HZDS and his most faithful followers, the disintegration of this movement continues, and many politicians from the opposition parties have long since counted on it. Some of them connect their ambitions regarding the taking over of political power with this disintegration; some of them promise themselves primarily the augmentation and the strengthening of their ranks by defectors from V. Meciar, who are part of the stream having similar political orientations. Of course, they also connect this with the subsequent increase in support on the part of those citizens who, as they figure, will also shift over to the camp of their supporters. Such ambitions, for example, are not being concealed by the AD SR [Alliance of Slovak Democrats], the Zalovo wing of the SDSS [Social Democratic Party in Slovakia], and other political entities.

I believe that, even if such an "inclination" among possible defectors from the HZDS were to come about, this would not necessarily automatically result in a gain for these parties or an improvement in their standings. It is not even clear whether these renegades might not represent almost a burden for them. It should be remembered, for example, that the press was very critical of the politicians of the AD

SR for having several times changed their party shirts and for exerting harsh criticism today of their former allies and friends, but mostly it should be recalled that the attitude of the majority of our citizenry with respect to such politicians is similarly critical and even repudiative. And even the Slovak citizenry, much like some of the Slovak politicians, is clearly and gradually maturing politically.

A look at our most recent history, in which citizens gradually, on a massive scale and very definitively, rejected several political teams that failed to fulfill their expectations, can be instructive. Currently, the citizenry is beginning to ever more reject the government of the HZDS (and part of the SNS [Slovak National Party]) and all that which is somehow connected with it. Political stigmatization, which was fanned and utilized by all of our post-November governments, has become a firm part of our sociopolitical reality and has, as always, first acted to benefit the holders of power and, subsequently, worked to their disadvantage. For example, much like some time ago, the political labeling of opponents acted to the benefit of the HZDS (ranging from those favoring the VPN [Public Against Violence] to being called members of the StB [secret police], and ranging through being labeled as followers of "clerical powers"); today, the majority of our citizens react negatively to the label "Meciar follower" or "former Meciar follower."

Clearly, all of our politicians are well aware of this "stigmatization effect," but not all of them take it into account equally. Some long ago closed the gates of their parties against stigmatized politicians (stigmatized as a result of political excesses and political collaboration) and some, especially those who have no other choice, are willing to continue accepting them. But it seems that those political parties that are attempting to profile themselves as being definitive or even choosy are experiencing a long-term rise. This year will clearly show whether this is part of the developmental trend moving from the image of a political scene determined by "broad-spectrum movements," "broad streams," etc., toward a scene that is replete with clearly defined and rankable political parties on the basis of European criteria. Slovakia would truly deserve such.

Insecurity of Slovaks in Czech Republic

94CH0167A Bratislava NOVE SLOVO BEZ
RESPEKTU in Slovak 10 Jan 94 p 7

[Article by Vladimir Skalsky: "Slovaks on the Opposite Bank of the Morava River"]

[Text] According to the 1991 census, virtually 315,000 Slovaks are living in the Czech Republic, which represents more than 3 percent of the total number of inhabitants. On 1 January 1993, these people awoke to a special morning. They were compelled to choose one of various possibilities: to become a foreigner where they have lived for years and where they do not feel like foreigners or to apply for Czech citizenship and then travel to visit their parents as foreigners. Problems involving health and social insurance, social security insurance, very limited possibilities to engage in business, the loss of the right to participate in

coupon privatization, the inability to exchange Czech currency within the Czech Republic for Slovak currency before undertaking a journey, and, mostly, the constant feeling of insecurity—these were the pressures under which local Slovaks had to make decisions and continue to make decisions. Moreover, many are determined to keep their Slovak citizenship. But not even the second of the possible decisions means that they would not espouse Slovakia or forget about their roots.

For many years, Prague has had the House of Slovak Culture (DSK) and the affiliated club. The Club of Slovak Culture (KSK) unites those who favor Slovak culture in Prague and its environs. The club has more than 2,000 members, more than half of whom are Czechs. No matter how meritorious the activities of this association were and are, in the cultural field its aims fell far short of satisfying all the needs of the local Slovaks.

And so, at the end of 1992 and the beginning of 1993, several additional Slovak activities came into being. The first to develop was the Community of Slovaks (OS), an apolitical association that was established as early as October 1992, at first in Prague, and, subsequently, following lively interest in other regions, it expanded its activities over all of the territory of the Czech Republic. Its first congress, which took place not quite two months following the division of the CSFR, was attended by more than 200 delegates. Today, there are already four regional OS organizations in Prague, Brno, Karlovy Vary, and Kladno. At Karvina, the organization wants to join the Community Association of Parents and Friends of the local Slovak basic school—the only one of its kind in the Czech Republic. Preparatory committees are also at work and in Tabor or Benesov. Today, the Community of Slovaks has about 400 members, and the number of sympathizers is approximately 2,000. Its activities are coordinated by a three-year presidium, headed by the journalist Nada Vokusova.

Significant popularity was also shown, primarily in the Czech-language press, to two other organizations: the Democratic Alliance of Slovaks (DAS) of director Fera Fenic and the Association of Slovaks (ZS) of the former delegate to the Federal Assembly, Jan Mlynarik. Both have several common features: According to their leading representatives, they plan to transform themselves into rightist political parties, the listed numbers of their members did not exceed 20, and they engage in no activities outside the city of Prague. However, publicity is provided by contacts in Czech journalist and political circles on the one hand, as well as being a result of their expressly anti-Slovak attitude. In addition, there exist several other Slovak activities, which are, however, already specifically focused—an example can be the Historical Group of Participants in the Slovak National Uprising or the Slovak Evangelical Church in the Czech Republic. The Slovak minority is officially represented by three Slovak members of the Council for Nationalities at the level of the Czech Government—one each from OS, the KSK, and DAS.

In May 1993, the Community of Slovaks began to publish the first Slovak periodical in the Czech Republic, with the title of DZAVOT. Seven issues appeared of this 12-page

monthly. Its title was intended to symbolize that the Slovak minority in the Czech Republic is still learning to act from this position it holds, that it still must get accustomed to formulating its positions and needs clearly. Because the creators of this periodical judged that the Czech Slovaks have already overcome this period, the periodical will change its appearance and title in 1994: The colored cover, including 24 pages, will bear the title KORENE [ROOTS].

The Government of the Czech Republic was reluctant to subsidize the periodical DZAVOT, as is customary with all local minority periodicals. The Matica Slovak cultural organization and other Slovak institutions helped out. The situation suddenly changed when DAS came up with the project for a monthly SLOVENSKÉ LISTY. SLOVENSKÉ LISTY received 1.2 million (to finance three issues!), and even DZAVOT came in for some crumbs—378,000. For 1994, to formally finance virtually identical projects, approval has been received for 2 million or rather 800,000 korunas. SLOVENSKÉ LISTY has profiled itself unequivocally as a political periodical that does not deal with problems experienced by Slovaks in the Czech Republic, and these people do not even contribute articles to it. From among the authors of the periodical, it is sufficient to identify only Ivan Miklos, Fedor Gal, Milan Zitny, and Miroslav Kusy. And so, the Czech Government, under the

pretext of supporting minority publications, is financing an opposition Slovak political periodical. Such a destruction of bridges over the Morava River is not in the interest of those whom the DAS allegedly desires to represent.

The Community of Slovaks has been successful in initiating even a Slovak-language broadcast over Czech Radio—a 10-minute news broadcast each day plus a one-hour program once a week. However, Slovak activities have only a minimal opportunity to influence the content of this broadcast. The Community of Slovaks has protested this several times, but, for the present, without results.

With the end of 1993, the House of Slovak Culture, which has provided occasional asylum for all of the above-mentioned associations, as well as sponsoring their joint meetings, under the slogan of "Forums of Slovak Activities," was supposed to close down. Although the embassy is supposed to establish a Slovak cultural and information center in the same building, this will take some time. So the largest minority in the Czech Republic and the third-largest community of Slovaks abroad anywhere (following Canada and the United States) finds itself in an extremely unenviable situation. But I believe that the Slovaks on the opposite banks of the Morava River have already definitely decided what to do—they will not capitulate.

Defense Ministry Accuses VREME, Journalists

94BA0204C Belgrade VREME in Serbo-Croatian
28 Feb 94 p 31

[Article by R.V.: "Jansa Waging War Again"]

[Text] Janez Jansa and Slovenia's Defense Ministry have announced that they will lodge a complaint or have already lodged a complaint with the competent court against several journalists because of a series of articles in MLADINA of Ljubljana. The accused include Svetlana Vasovic-Mekina, VREME correspondent and MLADINA staff member.

The reference is to articles which on the basis of secret documents obtained and testimony of participants exposed violation of the embargo, arms smuggling, misappropriation of military housing and unlawful treatment of former officers of the JNA [Yugoslav People's Army]. The journalists are charged with "insulting accusations" (under Article 108 of the Slovene Punitive Code, which is a variation of the once notorious Article 133).

Meanwhile, things are not really going as well as they might for the Defense Ministry in similar current trials. Following a series of articles in MLADINA about the illegality of certain moves made by the Defense Ministry (entry and confiscation of the apartment of Gen. Hecovar, former commander of the Slovene TO [Territorial Defense]), Gen. Hecovar's son filed suit before the competent court in Ljubljana and just the other day obtained a final verdict ordering the Defense Ministry to return the apartment and restore it to its original condition and pay the court costs. Thus it will probably be hard for the Defense Ministry to prove before those same courts that the newspaper articles about these and similar unlawful acts are "insulting accusations."

The announcement of the Defense Ministry that it will file a complaint against the journalists Igor Mekina and Svetlana Vasovic-Mekina for an interview with Sefket Suljevic, more precisely, for words uttered by Suljevic in that published interview, is an interesting precedent, one that was unknown even in the "leaden times of the communist SFRY [Socialist Federal Republic of Yugoslavia]."

Jansa is reproaching his former colleagues because of the shocking account of Sefket Suljevic, former captain in the KOS [counterintelligence service] in the Ribnica garrison, who in the course of a 10-day battle in June 1991, following an appeal from the Slovene Presidency, went over to the side of the TO, but immediately thereafter, according to his own account, was arrested, imprisoned, beaten, deceived and deported from the newborn state. The stateless Suljevic also revealed in the MLADINA interview that gentlemen "from some new military intelligence service" visited him at his temporary address in Vienna, where he has been given asylum, and promised that they would take care of his citizenship and passport for him without problems (so that he could return to Slovenia, where his wife and two children live), but all of this was on condition that he use his former acquaintances in KOS, who are now working in

the present military intelligence service, "to obtain documents that in any way compromise Milan Kucan or Janez Drnovsek."

Suljevic's story in the last issue of MLADINA, which indicates that he saved Ribnica near Kocevje from heavy shelling, and also the very act of surrender in order to go over to the TO, have also been confirmed by certain quite distinguished people from Ribnica. Now it is up to "Slovenia as a law-governed state." Both in the case of Suljevic and also in the case of the accused journalists.

Rightist Parties Will Not Merge

94P20507A Trieste REPUBLIKA in Slovene
26 Feb 94 p 1

[Article by Tanja Staric: "Charges Raised Against Gaspari and Puhar"]

[Text] Ljubljana—The SLS [Slovene People's Party] and SDSS [Social Democratic Party of Slovenia] have rejected the SKD's [Slovene Christian Democrats] initiative to unite. Instead, they offer to form a new coalition based on the "positive legacy of the Demos [Democratic Opposition of Slovenia]." The Presidency of the Social Democrats states in its message that the coalition should fight against "corruption, legal anarchy, political repression, and restoration of neocommunist." The People's Party says in its statement that Slovenia has arrived at a "decisive crossroads" at a time when it is still able to resist a "pernicious economic policy." The SLS will file criminal charges against Finance Minister M. Gaspari, Labor Minister Jozica Puhar, and Director of the Development Fund U. Korze. A real political scandal was caused yesterday by Janez Jansa's offer to all dissatisfied members of the Democratic Party, Eco-Greens, and Socialists who do not want to merge with the Liberal Democrats, to join his party. Presidents I. Bavec, P. Tancig, and V. Zakelj denounced this sort of "recruitment" as an "intolerable attempt to interfere directly in the relations among the merging parties on the one hand and the internal relations of the parties on the other hand."

Jansa Denies Rumors of Resignation

94P20487A Maribor VECER in Slovene 5 Mar 94 p 2

[Unattributed article: "Jansa Will Not Resign"]

[Text] Janez Jansa, Slovene defense minister and president of the Social Democratic Party of Slovenia, stated for STA [Slovene Press Agency] yesterday that he is not contemplating resignation, that he has never surrendered a battle, and that he is not going to do it now. However, considering the present balance of power or the relations among the parties in the parliament, some changes in the government are possible. Jansa emphasized yesterday that his supposed resignation is obviously a planted rumor since nobody had talked to him recently about a possible government reshuffling.

Economic Cooperation With Germany Increasing*94P20525A Trieste REPUBLIKA in Slovene
5 Mar 94 p 3*

[Article by C.R.: "Germany Opening Its Market to Slovenia"]

[Text] Ljubljana—Vojka Ravbar, state secretary for foreign economic relations, met yesterday with Scharnhorst Mueller, director of the German Federal Ministry of Economic Affairs, who visited Ljubljana for the 20th anniversary of cooperation between the LHB Internationale Handelsbank and the Ljubljana Bank. Mueller also met with other officials of the Ministry of Economic Relations and Development.

Mueller and Ravbar favorably assessed Slovene-German cooperation. Slovenia has a positive trade balance with Germany, which certainly proves that the German market is open to Slovenia. Another sign is the well developed cooperation in the area of investments, which will increase in the future. Mueller said that Germany will continue to support Slovenia in its efforts to join the European Union. Ravbar cited Slovenia's efforts to become a member of GATT. She proposed that Germany help Slovene enterprises participate in German conferences and seminars dealing with strategies and opportunities for improvement and development of various economic sectors.

Economic Relations With Croatia Improving*94P20525B Ljubljana SLOVENE in Slovene
10 Mar 94 p 1*

[Unattributed article: "Economic Relations With Croatia Improving"]

[Text] Zagreb—Vojka Ravbar, state secretary of the Ministry for Economic Relations and Development, met yesterday in Zagreb with Zlatko Mates, minister responsible for succession issues and cooperation with international institutions, and Nenad Porges, government adviser for the economy. According to the Croatian Government Information Office, they discussed bilateral trade issues, investment policy, and the agreement on payment transactions.

The Slovene and Croatian officials discussed measures to halt negative trends in bilateral trade. Ravbar also met with Jasna Boric, deputy minister of economic affairs. They exchanged views on the difficulties Croatian and Slovene companies encounter with payment transactions, and they agreed on further cooperation. Ravbar noted the strengthening of economic relations between the two countries.

Data on Foreign Investment in Slovenia*94P20506A Ljubljana SLOVENE in Slovene
28 Feb 94 p 4*

[Article by Manka Kremsek: "How Much Foreign Capital Is in Slovenia?"]

[Excerpt] Ljubljana—[passage omitted] Germany, Austria, and Italy are the main foreign investors in Slovene businesses, accounting for 65.9 percent of all foreign capital investments, or 81.6 percent of their value. Investors from

other countries, such as the United States, are not too interested, as seen from the table below.

It is hard to obtain statistics on the origin of foreign capital, where it is invested, and the amounts. The Ministry of Foreign Relations and Development has collected such data. It must protect business interests, however, and does not want to release the information.

However, it is known that there is substantial foreign capital investment in some businesses, e.g., Austrian capital has a 51-percent share of Henkel-Zlatorog in Maribor; in the tobacco factory in Ljubljana, German capital has a 56-percent and French capital an 18-percent share; the paper manufacturer in Kolicevo is 94 percent capitalized by Italians; and Uniteh in Skofja Loka is 51 percent capitalized by Austrians.

Slovenia is in great need of foreign investors, and it is in the country's interest to attract as many as possible. Of course, at the same time it must protect its national interests.

The adopted strategy should strive to attract foreign investors while at the same time protecting areas that are of national importance. A passive policy toward foreign investment means that we miss the opportunity to direct foreign capital into those economic sectors which need it most right now.

**Data on Foreign Investment in Slovenia
From October 1991 to December 1993**

Country	Number of Investors	% of Total Foreign Investors	Investments (million German marks)	% of Total Foreign Investment
Germany	580	20	720.8	44.9
Austria	670	23.1	332.4	20.7
Italy	663	22.8	257.0	16.0
France	20	0.7	114.7	7.1
Switzerland	94	3.2	58.1	3.6
Australia	11	0.4	36.3	2.3
Croatia	461	15.9	33.0	2.1
United States	41	1.4	12.2	0.8
Others	364	12.5	39.7	2.5
Total	2,904	100.0	1,604.2	100.0

German Military Officers Visiting*94P20486A Ljubljana SLOVENE in Slovene
3 Mar 94 p 1*

[Unattributed article: "German Officers Visiting Slovenia"]

[Text] A German military delegation from an army command center in Koblenz has arrived on a three-day visit to the Slovene Armed Forces. German and Slovene representatives will discuss cooperation between the Special Unit Training Center and the Command Center of the German Armed Forces.

Ethnic Albanian Party Addresses CSCE

94P20510A Skopje FLAKA E VELLAZERIMIT in
Albanian 2 Mar 94 p 5

[Unattributed article: "The Albanian People in Macedonia Are Discriminated Against"]

[Text] In connection with the acceptance of Macedonia in the CSCE, the leadership of the People's Democratic Party [of Macedonia [The Former Yugoslav Republic of Macedonia—FYROM]] addressed the following statement to the CSCE Ministerial Council in Prague:

"On the basis of the reality that the protection of peace and security in Macedonia is a condition for the containment of the conflict in the Balkans and beyond, and on the basis of commitments of the international community in this area, the People's Democratic Party, represented for the first time in the parliament of the FYROM, with the aim of surmounting problems as quickly as possible, considers that it is legitimate to inform the CSCE of the following:

1. About 40 percent of the total population of Macedonia are ethnic Albanians (the official figure is 21 percent).

2. Ever since it gained its independence, this state has been operating as an ethnic state of only the Macedonian (Slavo-Macedonian) people in all segments of decisionmaking, both in the highest state institutions and in other institutions of the economy, culture, media, etc.

3. Albanian deputies are outnumbered and outvoted in the parliament of Macedonia since there is no consensual decisionmaking. This resulted in the approval of the Constitution and of many laws that placed the Albanian population in a discriminatory position, especially in the fields of education, culture, privatization of capital, the media, the status of citizens, etc.

The government is completely centralized and concentrated into central organs while, in reality, there is no local government.

5. In cities in which Albanians are the majority population, the administration intentionally complicates the procedures for getting simple documents. A person has to wait for weeks to get a birth certificate.

6. The law on citizenship in Macedonia proclaimed about 100,000 Albanians as stateless persons, through no fault of their own, by applying the condition of 15 years of uninterrupted residence in the country as a basic condition for citizenship.

7. The last elections were discriminatory. For example, the electoral constituency of an Albanian deputy had an average of 8,000 voters while the constituency of a Macedonian deputy had 4,000 voters. Now they are intending to hold new elections with only cosmetic changes of the same laws.

8. Albanians are not allowed to have their mother tongue as the language of instruction in higher education, while only 2.8 percent of the Albanians are studying in Macedonian universities, where Macedonian is the language of instruction.

9. The structures of the central and local government and of the judiciary are ethnically pure or have token Albanians, while more than 300 Albanian lawyers in Macedonia are looking for work.

10. An Albanian party (the Party for Democratic Prosperity) took part in the coalition government with five ministers out of a desire to contribute to correcting the situation, but it was determined that the Republic of Macedonia just used them as window dressing for the international community. This failure caused serious problems for the party and it split into two parts. This radicalism is to the advantage of all.

11. The present government blames the lack of changes on the Macedonian radicalism of the VMRO-DPMNE [Internal Macedonian Revolutionary Organization—Democratic Party for Macedonian Unity] party (the ethnic Macedonian party). But the government did not mobilize the resources under its control to change the anti-Albanian attitude.

12. The present government blames the previous government for fact that Albanians are not included in the government structures, but this does not explain why the new areas which are being established in this country, such as diplomacy, continue to be set up on a single-nationality basis.

Many findings have been presented in the reports of various international and governmental associations, including the report to the 50th session of the UN Commission on Human Rights which was held in mid-February of this year.

Therefore, we think that it is a juridical, moral, and humanitarian necessity for this issue to be considered as one of the primary issues for the maintenance of peace and security in the region.

The People's Democratic Party believes that conditions should be set for the admission of Macedonia to the CSCE; that is, the FYROM Government should be obliged to enter into principled political discussions with the Albanian side through the intermediary of the CSCE, for the purpose of creating constitutional-juridical conditions for the achievement of real ethnic equality in the FYROM", says the Position Statement of the Leadership of the People's Democratic Party which was sent to the Ministerial Council of the CSCE in Prague.

National Bank Governor Stanoevski Interviewed

94P20375A Skopje VECER in Macedonian
29-30 Jan 94 pp 4-5

[Interview with Borko Stanoevski, governor of the National Bank of Macedonia, by Vasko Eftov and Vesna M. Bozinovska; place and date not given: "Balancing Between the Government's Course and the Banks"]

[Text] Our conversation with Borko Stanoevski, governor of the NBM [National Bank of Macedonia (The Former Yugoslav Republic of Macedonia—FYROM)] takes place as calls for his replacement ahead of schedule are becoming louder. Allegedly, his stubborn attitude toward certain questions has

not won him great sympathy among certain members of the government. And while competition in the press about the names of his possible successors has already become intense, Mr. Stanoevski, in his interview with VECER, begins to speak sincerely about these controversial issues.

[VECER] Mr. Stanoevski, it is precisely in the monetary sphere that there have been open questions about the negotiations with the World Bank that took place last week in Skopje. Were the ambiguities clarified during the somewhat delayed visit of Minister Trpevski to Washington?

[Stanoevski] During the negotiations with the World Bank, the particular problem was voiced because of their demand that we be very restrictive with respect to further loans to enterprises that are not liquidated. Naturally, they have demanded that the government or the NBM through its processes relieve the banks of that burden and issue a regulation through which they would be prohibited from issuing credit to enterprises that are not able to meet their obligations. This issue was also present to a great extent in discussions with the IMF. I, personally, discussed the matter with the chief of the mission who was here and convinced him that this demand was unacceptable.

Monetary Disagreements

[VECER] Was the disagreement precisely the reason the negotiations were abandoned at one point?

[Stanoevski] I did not abandon them; I have never abandoned any negotiations. But, on one occasion, we reached the point at which, instead of increasing the investment by as much as 21 percent, they proposed a reduction of six percent. We could not accept that and proposed another solution. The increase in the investments of the resources of the banks could go up to 16 percent; the fact that we were unable to go to a variant growth in the investments so that they would amount to 21 percent was that the entire program could not be brought before the Board of Directors, so we agreed that this should not be a criterion for fulfilling the program. We documented our doubts that, because of the fact that a large number of enterprises were in particularly difficult circumstances, that instrument could not be put into effect. We agreed to consult a second time, in the second quarter of this year, on the basis on the results that would be achieved during the first three months.

The World Bank suddenly demanded that we refuse to offer credits to enterprises that have great losses, but those are enterprises with a great number of workers; some 20 enterprises have suffered 90 percent of the losses and have about 40 percent of the employees in the economy. For the state, that would be very difficult to accept, and a compromise solution was found. It was approved by us and the government. A group of the 25 largest losing enterprises will, after presenting concluding accounts, be able to use credits from the banks hereafter, but only if the government guarantees them. But this arrangement is valid only until 30 June, and after that date the enterprises will be able to use credits only if they are creditworthy. At the beginning, the World Bank wanted such a decision to be made by the NBM, even though I think that the NBM does not have

the authority to introduce such a regulation. Now, it is necessary for the government to do it, and the NBM assumes the obligation in the second quarter from the possible growth of denar investments, which amount to 608 million denars, to ensure 300 million denars to be used only by these enterprises. We will devote the remaining 308 million denars to the use of the remaining enterprises. The NBM will issue that regulation. Otherwise, as far as the methods for granting credit to the greatest losers up to 30 June, the government held a special session at which each of its members had to declare whether he was prepared to accept that obligation.

[VECER] January 15 will be remembered as the date on which the Board of Directors of the International Monetary Fund met and the program had to be verified. But could that deadline not be extended somehow?

[Stanoevski] No, the IMF and World Bank boards did not set the date in advance. According to the latest information, the meeting of the IMF Board of Directors was set for yesterday. I think that the program will pass without difficulty because we succeeded in reaching an agreement about these details in the past few days. On 8 February, the World Bank board will meet, and I think that there will not be any problem there, either.

[VECER] It means that the positions on our side are also in agreement. How is it that we found out on Wednesday that you had a meeting with Prime Minister Crvenkovski and other ministers who are involved in the work?

[Stanoevski] Everything is in agreement, there are no open questions. All the technical problems associated with providing resources, for getting through, and settling obligations toward the bank should be completed by the middle of next month, which will be followed by withdrawals against the first tranches.

[VECER] Will we pay off the debt ourselves or will there be an alternative whereby Holland or the Central Bank in Zurich will do it first, and then we would settle with them?

[Stanoevski] It will be a combination. The main debt, which reaches its deadline for payment at the end of September and amounts to about \$107 million, should be paid at once through the bank for transfer to the account in Zurich and in conjunction with the Netherlands Central Bank. Later, we will settle the debt to them either with resources from donors or from our reserves. Otherwise, up to now, about \$27 million has been agreed upon by the donors, part of which has been paid in advance and part of which awaits decisions by the governments of those countries. Those are the percentages. At the present time, the donors' assistance will be about \$35 million, but the process of acquiring the donors' assistance will be extended throughout the entire year.

[VECER] Will the Soros credit be left out of the combination?

[Stanoevski] No, the Soros Foundation is not left out of the combination. Thereafter, to survive, we will incur debts of \$25 million, if everything is passed by our parliament, of course.

Expanded Independence

[VECER] Since May last year, the Central Bank has gained greater autonomy in its activities, above all vis-a-vis the government. How do you evaluate such a loosening trend?

[Stanoevski] You see, the Central Bank is quasi autonomous in its activities, which is a consequence of the Constitution of the Republic of Macedonia. As far as its work is concerned, the bank is basically responsible to the parliament. However, in the true meaning of the word—autonomy—an independent central bank does not exist anywhere in the world, as the bank directs monetary policy which is only one segment of the macroeconomic policy of a state, which is proposed, enacted, and carried out by the government. Here, it means that a very close, coexistential, and routine cooperation must exist. In that context, it is understood that there can often be disagreements. However, there are frequent discussions about the extent to which a measure, from the aspect of monetary policy, is acceptable to the government.

[VECER] Is there an unwritten rule about how much the Central Bank is independent in its work, and how much the government wants to focus attention on itself?

[Stanoevski] Perhaps there is some truth in that. I do not know how to approach that question. You should ask the government that.

[VECER] Last spring, the legal decisions needed by the National Bank to enable the Central Bank to gain a greater degree of autonomy in its activities vis-a-vis the state organs had great difficulty in getting passed. It is even said that the government accepted the measures under pressure from the IMF. It is also interesting—this metamorphosis of the leadership of the NBM from our conservative attitudes with respect to the monetary sovereignty of Macedonia to the hard work, at least under our circumstances, of taking radical steps for the greater independence of the Central Bank.

[Stanoevski] We have not been conservative when the issue of monetary independence arose, even though to a foreigner it may have appeared that way. You know, 1991 was a very exceptional year. In the parliament, those preliminary steps were taken; for three or four months, we had no elected government; the priority was to get decisions with political substance.... Actually, that year, not a single item from the economic sphere came before the parliament.

[VECER] Okay. Do you treat monetary independence only as an economic problem?

[Stanoevski] It is a multifaceted problem. In 1991 we made good use of 11 percent of the emission from the National Bank of Yugoslavia, even though according to the size of the social product, we could have exploited at most 5.5 percent and bought currency reserves from the National Bank of Yugoslavia to the magnitude of 197 million dollars, and that is 17.5 percent of the total currency sold by the National Bank of Yugoslavia for that year. We did not buy that much currency in the three previous years. That year, Macedonia was swimming in gasoline, so we began building currency reserves.

[VECER] In what way did the government transgress in order to accept the measures for greater independence of the Central Bank last spring, even though the members of the cabinet of Mr. Crvenkovski did not in the end agree with such an alternative?

[Stanoevski] No, they did not agree; they were just indecisive. I tell you frankly that we were also hesitant. I endured great apprehension over the changes. Imagine, we, who, for 50 years were on a fixed course, suddenly had to change to a course determined by the market. Generally speaking, it was not simple. Meanwhile, I must say here that, at the beginning, there were still many progressives in the government who supported this program. We had a much greater misunderstanding outside the government—in the Economic Chamber and in other institutions which showed greater skepticism.

Communication With the Government

[VECER] How are your relations with the government? It is said that your stubborn attitude on that specific issue did not find you great sympathy among particular government ministers, above all, those directly responsible for the economy.

[Stanoevski] No, we have already talked about that, about the opposing interests, which are known.

[VECER] Yes, but we did not talk about the misunderstandings that have been reported about interest rate policy last year.

[Stanoevski] Okay, we have discussed interest rates. The government adopted some recommendations and resolutions about interest rate policy which were created here. Together, we estimated that the interest rate policy of the commercial banks in the first half of last year was not set realistically. The economy rightly rebelled against the high interest rates. We discussed this problem at the Bank's Council, and the government also discussed it at its own special session. We came up with identical decisions: we charged the banks with re-examining their interest rate policies.

[VECER] You say that the government discussed the interest rate policy at its session. Why should the government discuss the interest rate policy when it is the responsibility of the NBM? Is that not just interference by meddlers?

[Stanoevski] No, the government discussed it under pressure from the chamber and from a group of economic leaders who demanded an audience with the government. Otherwise, the interest policy of the commercial banks is not within the competence of either the NBM or the government.

[VECER] Is it true that the Central Bank does not have any difficulty in carrying out the inadequate interest rate policy in the commercial banks without anyone taking administrative measures against it?

[Stanoevski] We do not have any legal basis for such administrative measures.

[VECER] Don't you think that the NBM, however, should be able to regulate interest rate policy with administrative measures? Countries like the U.S. until 1986 or Spain until 1987 fixed interest rates in the commercial banks using administrative means, didn't they?

[Stanoevski] Okay, I agree that there should be some measures. However, the measures should be based on indirect means, through monetary policy measures in order to cut interest rates. And we will try to do that above all through auctions.

[VECER] Were you on the same wave length as the government when it was a matter of the financial reorganization of the banks, especially with respect to the formation of an agency for the financial reorganization of the banks?

[Stanoevski] Here we had a small problem. Now, there is no kind of agreement. There were two theses. We all agreed that an agency for the financial reorganization of the banks should be formed—as an institution which would be professionally charged with that work, and not, as it has been up to now, by necessity. Debatably, it was completely a technical question. Should all the technical work for the agency be conducted by the bank? What should be meant by that—technical and administrative work? No one defined it. Such a decision, for a particular short period, was used in Slovenia, but it was emphasized that it should be duplicated in our law. Our opinion was that it should be an independent government agency. And, in the end, our interpretation was accepted. On the contrary, let's say, the director of the agency, in a way, would also be a director of a detached sector in the Central Bank. I could not accept that. With that, the independence of a working unit would be statutorily established having two masters. On the one hand, the council and the government, and on the other, a managing council of some agency. It is a good thing that there was, in the end, someone who thought that it should remain as it was.

[VECER] Was the law taken out or returned in the assembly's procedure?

[Stanoevski] The law was not taken from the procedure; it was incorrectly introduced. Simply, before the law entered the procedure, we agreed with the leader of the government that a controversial article would be expunged. Moreover, Bekir Zuta incorrectly accepted it and transferred it to the ministry [not further identified] which took the law out of the procedure. When we saw what had been done, we immediately corrected the error and returned the law to the procedure.

[VECER] How much do the state reserves amount to currently?

[Stanoevski] At the moment, there are about \$122 million, but that is subject to very rapid change with respect to the fact that the obligations to the World Bank should now be paid. The largest share of the currency reserves has been acquired through exchange transactions. We ended 1992 with about \$66 million in currency reserves, but now, you see, they have increased by about \$60 million, of which \$50 million was derived from exchange transactions, but the

rest is from abroad. Actually, we sold more abroad through the currency market than we bought.

(Non)Immunity of the Policy

[VECER] Does politics interfere with the work of the bank? Now, an election of three deputy governors is imminent. Saban Prevala is a representative of the Party for Democratic Prosperity, Dusanka Hristova is a member of the presidency of the Liberal Party, and Dr. Gligor Bisev has been called up to now an independent.

[Stanoevski] You see, before the end of last year, we were left without a deputy governor. In accordance with my duties, I am charged with suggesting the election of deputy governors and of an acting governor. Considering that for me, as governor, it was the president of the republic who named me and who can dismiss me, I first acquainted him with the problem. We examined two possible options. The matter could be left until the election of the next governor, or it could be resolved now in order for the people to ensure continuity and to assume a portion of the governor's duties. Parliament selects them, and, in the final analysis, they are responsible to the Assembly and not just to me as governor. We agreed, however, that it would be better not to wait for the expiration of my term, but rather to propose deputy governors.

[VECER] We hear that there are some problems with the rules concerning their appointment?

[Stanoevski] Well, until yesterday, until the withdrawal of the proposal from the agenda, I thought that there were no problems of any kind. Where things stand now, I have not been informed. In the public media, I read that this was tied to my replacement, and that the nomination of the new governor and the election of the new deputy governors should be postponed for a while.

[VECER] When will your term expire? Do you have the right to campaign for a second term?

[Stanoevski] I cannot campaign for myself. It is up to the president of the republic to offer a nomination. My term expires on 19 October this year.

[VECER] To what extent is there a possibility for you to be governor of the National Bank for a second time?

[Stanoevski] That would depend upon many circumstances. And, it is most likely that, at that time, it would be possible for me to say whether I would be a candidate. Above all, it depends on who will be president of the republic and what kind of composition the government will have.

[VECER] When your term expires, the president of the republic and the composition of the government will certainly be the same, considering that the elections will probably be even later.

[Stanoevski] I do not know whether, in the last month of their work, the parliamentarians will debate the selection of a new governor. It is most likely that would leave me in place after the expiration of my term, provided of course, that I wait through the end of the term, and another few

months as acting governor. Consequently, if they want to replace me, they should do so now.

[VECER] In our conversation, you continually stress—if I wait through the end of the term. Do you really feel such strong pressure to resign?

[Stanoevski] No. I have experienced absolutely no such pressure. But recently the press has begun to write about that.

[VECER] And just how much power does the press have? Certainly, it cannot replace you?

[Stanoevski] No, it certainly won't replace me. I trust the press, and I trust that you now have exact data and do not fabricate things. You probably know something now that I do not.

[VECER] They say, when all kinds of stories begin to circulate about a certain person in political life, then certainly they are trying to suggest something to him. What is suggested to you by the stories that you have a private bank?

[Stanoevski] I have not heard these stories. Unfortunately, I do not have any kind of bank, and I do not have even one denar of stock in any kind of bank. My wife is in one bank, in the Credit Bank, and probably that is the grounds for the stories. For me, it is an unfulfilled dream to have my own bank, but I cannot get the capital since I do not have 150,000 marks.

[VECER] Much earlier, you changed the law which strengthened the limits for opening savings accounts. Previously, other things being equal, would it have been easier for you to open a savings account?

[Stanoevski] If I made a mistake, I made it earlier, four or five years ago, in the former Yugoslavia. I should have formed a bank then.

Scandals

[VECER] Speaking about private banks and savings accounts, is it possible for us to have a scandal along the lines of those of "Dafiment Bank" or "Jugoskandik Bank?"

[Stanoevski] As far as I know, a scandal has already arisen. It concerns a savings account which called itself a branch of some Belgian bank. It promised credits up to 60,000 German marks with a hypothetical deal with which it collected a lot of resources from citizens and suddenly disappeared. Another case, and a much bigger scandal, involves the situation with "Jugomarket Stedilnica" savings bank. As a result, we made a decision that the license of that bank should be revoked. The consequences are known: They will not work either as a bank or as a savings institution; they will go bankrupt, and the deposits will be settled by the bankruptcy court.

[VECER] What's going on with "Karic Bank?"

[Stanoevski] "Karic Bank" of Belgrade has a business branch in Skopje which was in compliance with the provisional rules of the law on banks as it then existed. But, as such, it was not under the control of the NBM. I spoke with the owners of "Karic Bank" and they were categorical that not a single depositor would lose money, either interest or principal. I promised them assistance and that I would discuss with some of our banks giving them denar credits on the basis of the hard currency deposits and that the NBM would not treat these deposits in accordance with the bank's hard currency policy. Thus, we would make an exception in the interest of the citizens.

[VECER] To what extent do you work with the Bank for Foreign Trade?

[Stanoevski] In my opinion, the Bank for Foreign Trade has not carried out the procedures for separating itself from the former "Jugobanka" in the most felicitous manner. That is why, from the very beginning of its operations, it encountered liquidity problems. Toward the end of last year, the liquidity of the bank reached a critical point for paying into the savings accounts of citizens, as guaranteed by the NBM, and they began to draw on the resources of the central bank. At that point, we issued a ruling which prohibited them from using this money for other purposes while drawing the resources for the savings accounts. This prohibition lasted only 15 days. Later, we replaced this ruling with another one which stipulated certain measures to overcome the problem. In three months, we will decide whether the bank should enter the restructuring process.

[VECER] Have the ambiguities regarding the business balance between "Komericialna" and "Stopanska" banks been fully clarified?

[Stanoevski] No. The business balance was not fully completed, and I think that the entire work should be finished much quicker. The two banks should themselves work out a mutual agreement. It would be wrong for the "Komericialna" Bank to think that it has extricated itself from this. There will be problems. For example, the "Stopanska" Bank could take advantage of some unfair practices. The World Bank, the IMF, and the other international financial institutions should be informed that the dispute between the two banks has not ended.

[VECER] And in conclusion, the competition for new Macedonian bank notes has ended. How far has work progressed?

[Stanoevski] The competition has ended, but the decisions on the bids have been reviewed by a specially formed group which is under the auspices of the National Bank and on which artistic, scholarly, and financial experts collaborate. In accordance with their suggestions, we agreed to make a contract with the winning contestant, Biljana Unkovska, who now lives in Slovenia. She is to prepare six bank notes with figures and six bank notes with other symbols from our cultural and national heritage. When these are ready, we will decide which design to accept.

Federal**Seselj: Monetary Reform Will Not Survive***94P20500A Belgrade POLITIKA in Serbo-Croatian
2 Mar 94 p 10*

[Article by G.M.: "Seselj Does Not Believe in the Economic Program"]

[Text] Leader of the Serbian Radical Party [SRS] Vojislav Seselj, Vice President Toma Nikolic, youngest Deputy in the Assembly of Serbia Stevo Dragisic, and President of the SRS of the republic of Srpska Rade Leskovac confirmed once again their position toward the present government at a promotional meeting, the first of its kind, in Brus:

"We supported the ruling party as long as its policy did not become dangerous for the economy of the country, which is leading the citizens to poverty. We did not want to participate in it, and especially we did not want to take part in putting pressure on the republic of Srpska and the republic of Serbian Krajina to accept the ultimatum and renounce the fulfillment of their goals," Seselj stressed.

Speaking about the Program of Monetary Reform, Seselj stressed that he did not believe it would be possible to implement it in the way it is being done now. "I believe that the monetary reform will not survive beyond the harvest," SRS leader said.

During his presentation, someone interrupted Vojislav Seselj several times. After two casual warnings, Seselj threatened the unknown person with the following words: "Calm down or get out, otherwise I will personally come to throw you out of the room." The person was not heard again.

Indictment Sought Against SFRY Presidency*94BA0200A Maribor VECER in Slovene 16 Feb 94 p 16*

[Article by STA's Belgrade correspondent: "Janez Drnovsek Too?"]

[Text] *Generals Veljko Kadijevic and Blagoje Adzic are supposed to be the ones most guilty for the JNA's [Yugoslav People's Army's] withdrawal from Slovenia.*

There is specific evidence that Branko Kostic, Borisav Jovic, Jugoslav Kontic, and Sejdo Bajramovic did not prevent the adoption of the decision on the JNA's withdrawal from Slovenia, and that they did not declare martial law or a state of emergency and adopt a decision on general mobilization on 12 September 1991. For these and other reasons, Djordje Dozet, a Belgrade military court judge, is proposing to the military prosecutor of the Federal Republic of Yugoslavia [FRY] army's General Staff that appropriate measures be taken against the members of the former SFRY [Socialist Federal Republic of Yugoslavia] Presidency, according to STA's Belgrade correspondent.

Judge Dozet, who has the rank of captain, is actually demanding a trial of the entire former SFRY Presidency, i.e., also Stipe Mesic, Janez Drnovsek, Vasil Tupurkovski, and Bogic Bogoevic [as published], namely because in

March 1991 they rejected a proposal from Federal Secretary for National Defense Veljko Kadijevic to declare a state of emergency and because in July 1991 they adopted the decision on the JNA's withdrawal from Slovenia, and thus recognized its secession.

Dozet is primarily accusing Generals Veljko Kadijevic and Blagoje Adzic because they did not prevent the SFRY Presidency's decisions on the JNA's withdrawal from Slovenia and on the release of 5,000 soldiers from the September draft, and because they did not order JNA attacks against Croatia's paramilitary units. The list of the accused also includes Generals Zivota Avramovic, Andrija Raseta, and Dobrasin Parasevic, who among other things are supposed to have been responsible for turning over the equipment of the military hospitals in Zagreb and Ljubljana to the secessionist republics' authorities.

Some circles in Serbia and Montenegro, especially military ones, still cannot reconcile themselves to the fact that the SFRY no longer exists. An answer to the question of why there is one trial after another in the FRY of officers for the military defeats of Greater-Serbian policy would be interesting. The answer is more than simple: obviously someone has to be blamed, especially now that the Serbian policy is facing its most real danger to date—the NATO alliance's ultimatum. It is easiest to make long-retired generals and members of the former SFRY Presidency, one of whom is already deceased and four of whom are not within reach of the judges and prosecutors in Belgrade, the scapegoats.

It is actually not very likely that the military prosecutor of the Yugoslav army's General Staff will respond to Dozet's proposal. The Supreme Military Court, just a few days ago, annulled the verdict of the Belgrade military court on the basis of which five officers from the JNA's Varazdin Corps were acquitted of surrendering their units and turning over enormous amounts of weapons to the Croats.

The judicial proceedings against the Varazdin Five, of whom General Vlado Trifunovic was supposedly the most responsible, have been dragging on for more than a year, and it seems that they still will not end soon. They are also interesting because the above-mentioned five people were acquitted precisely by Judge Djordje Dozet, who presided over the Belgrade military court at the trial. The Supreme Court annulled his verdict acquitting them on the basis of testimony by Generals Zivota Avramovic and Veljko Kadijevic, according to STA's Belgrade correspondent.

Democratic Party Leader on Meeting With Karadzic*94P20515A Belgrade VREME in Serbo-Croatian
28 Feb 94 pp 16-17*

[Interview with President of the Democratic Party Zoran Djindjic by Uros Komlenovic; place and date not given: "Eight Hours With Karadzic"]

[Excerpt] *The visit of the delegation of the Democratic Party to Pale on the occasion of the recently prepared "festive expectation" of the outcome of the NATO ultimatum, spurred various comments in Belgrade: Praise could be heard, as well as criticism that what is at issue is a "cheap*

collection of political points." Zoran Djindjic, president of the Democratic Party, confirms in talks with VREME that the development of events in Bosnia directly influenced his decision to travel to Pale.

[Djindjic] We had an agreement in principle even earlier to discuss with the leaders of the republic of Srpska the forming of the Democratic Party in this territory. When the ultimatum was declared, it seemed to us natural to go to Pale and thus express our solidarity with the people in the republic of Srpska.

[Komlenovic] How was your idea on the founding of the party accepted in Pale, and what else was discussed?

[Djindjic] We agreed not to found the party until the war is over. We agreed that the forming of a real political party in the territory of the republic of Srpska at this moment could mean disloyal competition with the Serbian Democratic Party [SDS] along with the danger of creating confusion among the members of this organization, which, because of the conditions under which it operates, resembles more a blend of a national movement and the state administration than a political party. In addition to this, we discussed the future government system and relations between political parties in Serbia and the government leadership of the republic of Srpska. We wanted to introduce a little relaxation in relations and bring into question the monopoly of the Socialist Party of Serbia in relation to the Serbs in Bosnia, which, it seems to me, is suffocating them somewhat. Anyhow, if the SDS were a political party in the traditional sense, I do not believe that it would be close to the Socialist Party of Serbia—communist and socialist ideas are not popular among the people of the republic of Srpska. On the other hand, the mention of the republic of Srpska spurs nonconfidence in some opposition circles in Belgrade. We want to establish correct relations with the SDS and to lay a foundation for our future cooperation.

[Komlenovic] The leader of the Bosnian Serbs, Radovan Karadzic, did not miss a single opportunity to express unreserved support for Milosevic on the eve of the elections, in spite of frequent attempts by the opposition to ingratiate themselves with him—it is sufficient to mention the support of the Democratic Party of Serbia when the Vance-Owen plan was rejected or Seselj's aid in suppressing the military uprising in Banja Luka. Have you seen any additional reliable indication that Pale's views on the political scene in Serbia may be changing?

[Djindjic] I think that something is changing. Before the last elections the leadership of the SDS and the republic of Srpska did not explicitly support the SPS. The support of Serbs from Bosnia was up to now addressed to Milosevic as a candidate for the president of Serbia and not to his party. The problem is that many opposition parties in the republic of Srpska have the reputation of being unpatriotic. We wanted to destroy exactly this thesis and show that radical demagoguery and crude language are not a proof of patriotism, that national interests can successfully be protected by the policy of peace, and that the division into "patriotic" and "unpatriotic" parties is not justified. There are no unpatriotic parties in Serbia. Anyhow, we differ both in our

presentation and party mentality from the political organizations which had previously been coming to visit the republic of Srpska, but our interlocutors (we talked with Mr. Karadzic and 15 people from the political and military leadership) told us that no one has been received as well as out delegation thus far. Eight hours of conversation in a single day must mean something.

[Komlenovic] It is increasingly heard in public that the diplomatic action in connection with the NATO ultimatum and the withdrawal of the Serbian artillery from positions around Sarajevo, represent, in fact, Milosevic's defeat. Is it also your impression that Karadzic has slowly started to become independent in relation to Milosevic?

[Djindjic] Of course. Maybe this should not be interpreted as a Milosevic's defeat but as a process of maturation: The republic of Srpska does not need a guardian. The greater the pressure of Milosevic and the FRY on the Bosnian Serbs, the greater the pressure of the international community on the parent state. Thus, by making Milosevic and Yugoslavia move away from their present diplomatic positions, the need for additional pressure on the Serbs will decrease and the economic blockade will become meaningless, which is good. It would be best if Milosevic would declare that he is withdrawing from the Geneva peace negotiations. Thus, it would be clearly shown that Yugoslavia is not involved in the conflict in Bosnia and that the republic of Srpska can represent its interests alone.

[Komlenovic] At the beginning you said that you spoke with Radovan Karadzic on the future setup of the state. Whose state?

[Djindjic] We agreed that the republic of Srpska should be joined to Serbia. A transitional solution should be found, and everything should be carried out with the consent of the international community, which I think will not oppose this option if peace is concluded. Thus, we talked about the future setup of the joint state, which should not be burdened with the ideological dogmas of socialist bureaucracy. Our common assessment is that this state should be parliamentary and democratic. I emphasize that we would be more moderate than our interlocutors as regards the time frame for changing the ideology. [passage omitted]

Serb-Russian Gas Line Cooperation Plans

94BA0202A Belgrade POLITIKA in Serbo-Croatian
22 Feb 94 p 11

[Article by Momcilo Cebalovic: "Two Consortia for One Gas Line (2): Work for Stockholders Only"—first paragraph is POLITIKA introduction]

[Text] The Russian partner will not finance the gasification of Serbia until the sanctions are lifted; the new consortium acknowledges the work of the old one, and money previously invested by NIS [Petroleum Industry of Serbia] will be included as an investment in the future joint-stock company; the Pojate-Nis-Dimitrovgrad branch of the gas line will be a joint-stock company; significance of the branch from Bulgaria.

The blockade against our country has halted many projects, including the gasification of Serbia south of Batajnica,

which has been dragging on for 10 years now. The biggest problem has always been the lack of money. The question now is whether Serbia will solve these problems as well, since there are two consortia for the gasification of south-eastern Serbia. The job will probably be undertaken by the one with the stronger political position in these times.

Only three days before the last elections, on 16 December, a meeting took place at Serbian President Slobodan Milosevic's office between Mirko Marjanovic, the general director of "Progres," and Stepan Romanovich Derezhev and Vladislav Vladimirovich Pochinkin, the directors of "Gasprom" in Moscow. The official announcement said that these men are representatives of a consortium to construct the southern branch of the gas line across Serbia. In the presence of the president as well as Prime Minister Sainovic, it was reported that "a contract was signed concerning this major job." Speaking of former Prime Minister Sainovic, it must be noted that he has long been acquainted with the cooperation between "Progres" and "Gasprom." It is perhaps partially for that reason that insiders say that he will be the FRY ambassador to Moscow.

The founders of the consortium, at least according to the Serbian Government accord signed by Sainovic, are the mixed Russo-Serbian enterprise "Progresgas-trejding," Belgrade, as well as NIS, "SARTID 1913," and "Beobank," so that it was logical to expect that these members would put their signatures on the contract concerning joint financing and construction of the gas line through which gas would one day arrive not only from Hungary, but also from Bulgaria. But since the members of the consortium existed only "on paper," without any mutually arranged relations, without any agreement to govern this, it was normal that only two "serious" firms would then emerge, which are in fact the foundation of this consortium: "Progres" and "Gasprom."

Priority to Mixed Enterprise

Even that information about Russian financing of the Serbian gas line under the blockade elicited reactions by IZVESTIYA, and it was explained in Moscow that this job will get under way only after the sanctions are lifted. A month ago, we too looked for someone at "Progresgas-trejding" to explain this, but Toplica Nedeljkovic, one of the directors of the mixed company, considered it a bad time for anything to be written about that. Thanks to Mirko Marjanovic, the general director of "Progres," we spoke to "Progresgas-trejding" about the new consortium only a few days ago. We asked Filip Grujic, the assistant general director of "Progres," and Toplica Nedeljkovic, the director of "Progresgas-trejding," what has happened over the course of the month and a half since the contract was signed in President Milosevic's office.

They explained to us that the goal of creating the consortium is to gasify that part of Serbia and to ensure an alternative and supplemental path of entry for gas, at Dimitrovgrad, in addition to the existing one at Horgos. According to the government accord, the job coordinator is "Progresgas-trejding."

\$190 Million From Stockholders?

"We are a Russo-Serbian mixed enterprise, there will be Russians involved in the job, so it is logical that we be the exponents of the job," says Nedeljkovic, who before assuming this post was in fact an assistant to Nikola Sainovic, then the minister of energy at the very time when "Progres" was intervening to cover the debts of importers and users of gas by exporting our goods. At the time, "Progres's" entry into the gas business created conflicts with NIS, but some sort of compromise, about which nothing can be written at present, was found to the satisfaction of all.

The role of the founders is to create the conditions for realization of the job in the first phase. That would mean finding money, providing projects.... The readiness of the Russian firm to come in with money is not disputed. Will that be only money, or equipment and labor as well? The people at "Progresgas-trejding" with whom we spoke do not deny that an investment program has been drawn up within NIS (while they do not mention "Energogas," although it is known that it is behind this), and that they have plenty of necessary projects (for the Pojate-Nis-Dimitrovgrad line) from which the new consortium will profit. Thus, they will also need what the old consortium, which is still in existence, produced. The task of the new consortium is to construct the line in question from Pojate to Dimitrovgrad, as well as the Nis-Knjazevac-Bor-Prahovo, Nis-Leakovac-Vranje, and Nis-Prokuplje-Kursumlija-Pristina lines. It is estimated that between \$180 and \$190 million is needed for all these lines.

We would add that "NIS Energogas" knows nothing about these talks that you have had with NIS.

"That is a relationship problem at NIS," says Nedeljkovic.

"We are planning," Grujic continues, "to build the gas lines with investments from future stockholders, who will be the co-owners of the gas lines, who will run them and have the right to share the profits that we expect. We intend to create a new enterprise whose job will be the operation of the gas lines constructed with stockholder investments."

Can this principle also apply perhaps to the long-distance hot-water line from the thermoelectric power plant in Obrenovac to Belgrade?

"Certainly. If that had been done, the job would have already progressed quite far," Grujic replies.

Whoever Provides the Money Gets the Work

The officials with whom we spoke emphasize that firms that are not among the founders but that accept the principles will be allowed to join the project. It has been agreed that everything that NIS has invested thus far in these lines will be recognized as an investment in the new enterprise. For example, the planner will be the same. Incomplete investments made within the NIS context concerning gas will be completed by those who began them. Our consortium will not interfere in this regard, they say. They emphasize that "there is no controversy in relation to the existing consortium. They themselves can finish what

they have begun, and if someone from that consortium wants to participate in this one, they can join it."

"No one can be guaranteed work unless they provide money," says Grujic, in response to complaints from firms in Nis who are afraid of losing business. If they do not have the money to invest, then they can invest their labor as future co-ownership.

The capacity of this branch from Bulgaria is two billion cubic meters of gas annually. Around seven billion cubic meters can enter each year from the Hungarian line. This would allow for a normal supply until 2011. However, Nedeljkovic says that we have never taken more than 2.5 billion cubic meters from the Hungarian line (plus a billion cubic meters of domestic gas). Thus, with this branch, if there is enough consumption and users that can pay for the gas in this country, it will be possible to import around nine billion cubic meters annually. This branch would close the "gas line ring" and reduce the dependence on petroleum derivatives (and increase the dependence on imported gas)... Gas is cheaper than petroleum, Grujic and Nedeljkovic emphasize, stressing that the possibility of a "goods for gas" arrangement is very great. Conditions will also be created for getting gas to Montenegro one day.

Have the founders signed any mutual agreement that would lend legal status to the consortium?

"The principles have been agreed to, and an agreement is being drawn up," says Toplica Nedeljkovic.

Insufficient Deposits Plague Banking

94P20516 Belgrade VECERNJE NOVOSTI in Serbo-Croatian 2 Mar 94 p 11

[Article by D. Nedeljkovic: "Credit Awaiting Deposits"]

[Text] There is no possibility of credit without significant savings by citizens. Beobanka is the first bank to offer real estate loans, but few people can pay the high interest rates. To grant farm loans, Agrobank requires deposits or share purchases.

Strong Dinar—Expensive Credit

The expected revival of credit activity is much slower than expected. Zika Urosevic, chief of the Credit Department in Agrobank, notes that "there cannot be credit without deposits. It is true that we are not lending money yet, but we will start for certain no later than one week from today. However, the question is who can get credit as long as we require deposits or share purchases."

In Agrobank, for the time being they only indicate that their business policy will also make provisions for loans to farmers, but only under the previously mentioned condition: cash deposits or share purchases. For the time being, the possibility of using the former hard currency savings is not being considered.

Dragoljub Vukosavljevic, president of Union Bank, points out that "the only person who can get a loan is someone who has money, but such a person does not need to borrow money. Banks have no money; thus, more active lending

can be expected only after the revival of savings activity. Still, the question is how to regain savers' confidence."

Many banks are waiting for their annual meetings to define their business policies and specify the requirements for credit. In Privredna Bank in Belgrade, they believe they will regain the savers' confidence because they have already paid off almost one-half of the old hard currency savings.

Milovan Kvrjic, director of Privredna Bank in Belgrade, says that "there is no saving and therefore no credit without savers' confidence. Objectively observed, banks have no source of money for lending until saving is revived both in hard currency and in convertible dinars. What will probably help us is the fact that we practically never stopped paying off the old hard currency savings accounts."

The Beobanka Bank has published the requirements for all types of credit. Particularly important for individuals is the possibility of real estate loans. However, these loans are available only to those who can make a deposit equal to 50 percent of the loan value with annual interest of 7 percent. Loan terms are 20 years for purchase of an apartment and 10 years for home improvements. However, the early figures show that only a few people will be able to meet the requirements of either deposit or interest rates, which amount to 1,000 dinars per month for a two-bedroom apartment of 60 square meters.

The expectation entertained by potential borrowers that banks are going to offer a large spectrum of loans is not realistic. The little money the commercial banks will allocate for loans will be used very sparingly. No comparison to any previous period would be realistic. The present situation is considerably less favorable despite the fact that we have a solid dinar. Some bankers even say, with a light touch of cynicism, that the dinar is expensive and difficult to borrow mainly because it is strong.

RSK Telephone System Remains in FRY

94P20544A

[Editorial Report] An article on page 16 of the 3 March issue of the Belgrade daily POLITIKA reports that a new automatic telephone exchange has been installed in Vukovar "reconnecting this part of the republic of Serbian Krajina [RSK] to the world." In addition to a number of telephone lines in some areas of Slavonia, Baranja, and Western Srem that had been linked to the telephone exchanges of Novi Sad, Sombor, and Sid in Serbia's Vojvodina province, in the next 20 days the most remote villages of the Vukovar municipalities will be linked to the automatic system, and in the next two to three months telephone exchanges of villages in the Dalj, Tenja, and Mirkovci municipalities will be plugged into the Vukovar main telephone exchange, POLITIKA states.

The paper cites Spasoje Popovic, director of the Post, Telephone, and Telegraph [PTT] Public Enterprise for Slavonia, Baranja, and Western Srem, as stating that the PTT will recognize all the rights of previous subscribers in the territory of the former Croatia, under the condition that they prove that they owned the telephone before the war.

Popovic notes that, during negotiations to establish telephone links between the Federal Republic of Yugoslavia [FRY] and the Republic of Croatia, the Croatian representatives had demanded that the territory of the republic of Serbian Krajina be included in the Croatian telecommunications system, with the prewar area code of 056, which would have meant that the RSK was an integral part of the Republic of Croatia. This was not accepted, Popovic says, adding that the telephone connections of the RSK will remain in the FRY telecommunications system. Thus, the RSK and the FRY, as a single system, will establish their telephone links with Croatia via Croatia's country code number 99385, the POLITIKA article concludes.

Serbia

Serbian TV Refuses To Broadcast Free Army Ad

94P20488A Belgrade POLITIKA in Serbo-Croatian
27 Feb 94 p 13

[Article by R.P.: "Television and the Military Court"]

[Text] Radio Television of Serbia [RTS] has refused to broadcast free of charge during prime time an advertisement to popularize the Yugoslav Army, i.e. to recruit young men to be trained at military academies and military high schools.

At first glance one could say there is nothing controversial about this; every advertisement has to be paid for; television cannot waste its valuable time and does not have to make exceptions. Anyway, one second of prime time for an ad costs, depending on the program, an average of 50 dinars.

However, RTS did broadcast the military ads for a certain period of time. It is true that it aired the ads during programs that do not have a large number of viewers, such as "Dozvolite" [Allow Me] and "Srbija Danas" [Serbia Today], but then it decided not to show them anymore. While large television stations decided to take this step, the small ones continued to air the ads. Free of charge, of course.

The Montenegrin and all the local Belgrade television stations agreed to run the ads free of charge. It is said in the army that POLITIKA TV and Studio B were the first to respond: They understood the situation of the Yugoslav Army. As soon as the request by General Momcilo Perisic arrived, they agreed to provide several spots daily, although the financial status of these television stations is not particularly good.

On the other hand, the state television did not yield to the army's request to have a few seconds allotted for the armed forces even though the airing of the ads on military schools is of public interest.

The army has calculated that it would have to pay 50,000 dinars (German marks) to state television for it to agree to broadcast the ad on four RTS channels, and this only for a few days.

Of course, such a sum was simply shocking to the Army, which asked the president of the Federal Republic of Yugoslavia [FRY] to do something through his "connections."

FRY President Zoran Lilic made a request to RTS, but even this did not help.

Opposition's Proposals on Radio-TV Law

94BA0204A Belgrade VREME in Serbo-Croatian
28 Feb 94 pp 28-30

[Article by Ivan Radovanovic: "The Turnkey and the Fortress"]

[Text] Now that the Serbian Government has controlled Radio-TV Serbia for three years, the opposition will try to right things by turning back the clock a bit. According to the bills on the Radio-TV which DEPOS [Democratic Movement of Serbia] and the SRS [Serbian Radical Party] have prepared, each on its own, the Assembly would reassume power over operation of television—from Appointment of the general director to definition of programming policy.

According to the case made by the Radicals and DEPOS, television would thereby cease to be a one-party institution, and its pluralization would automatically terminate the influence which the Socialists have at the moment on the shape of TV programs. "We are in a big hurry," says Zarko Korac of the Citizens Alliance [GS], explaining that the reasons for this lie in precisely what television is showing and that the solutions proposed, again because of the hurry, can be referred to as "initial and transitional."

The Bills

One of the differences between the two opposition bills lies in the institution of the programming committee, an idea that is backed in DEPOS; it would have 20 members (half from among people's deputies and the other half made up of figures in science, culture and public life, along with three members from Radio-TV). The principal tasks of the programming committee, as seen by the people from DEPOS, would be to appoint editors in chief and managing editors, to establish overall radio and television policy and to set down the rules for presentation of party programs and candidates over radio and television during the election campaign.

In their bill the Radicals assign these functions to the managing board, and both parties envisage the institution of an oversight committee, which is also quite well-known already. The Radicals try to solve the problem of the general director by having him chosen after each election, and DEPOS with a provision prohibiting him from any participation in a body of government or in the parliament itself (Milorad Vucelic, the present general director, heads the caucus of the SPS [Socialist Party of Serbia] in the Serbian Assembly).

The Radicals and DEPOS differ in the way they solve the problem of allocation of radio frequencies. In the DEPOS version this function would also be assigned to the Assembly, that is, to a committee which it chooses, while the Radicals would leave the question of frequencies to the

Government, which would allocate them according to criteria proposed in the Radical Law on Radio-Television. To be sure, the Government will also operate through a commission, but the influence of the Assembly would be that the Committee for Culture and Information would nominate to the Government candidates for membership on the commission. In addition to the attempt to solve the problem which is obviously the main one for the opposition—television, in DEPOS they have gone a step further and also drafted a proposed Law on Information. The most important thing in that bill is that it envisages the existence of several, not just one, newspaper organization and the institution of the ombudsman. According to the conception, the ombudsman would be a single official elected by the Assembly and nominated by the relevant committee of the Assembly, and his principal task would be to protect the public's right to know.

He would be chosen from among the ranks of experts in communication science, law and journalism; he would work independently (in response to complaints and requests of legal entities and individuals), and his decisions would be binding on those in positions of responsibility.

Aside from the purely mathematical problem that would arise if the parties do not dovetail their bills and if they should get in a situation where they cannot get a sufficient number of votes for them, there are several other stumbling blocks for everything the Radicals and DEPOS have conceived.

"Neither of the bills really gets to a mastodon like Radio-TV Serbia, nor do they establish new rules of the game," says Professor Dragor Hiber, himself a member of the GS, and he adds: "If the idea is to change one master for another, then that is a bad idea, and in addition it is condemned to failure for the simple reason that the opposition does not have the votes to get it through the parliament."

Defects

Professor Hiber believes that it makes no difference which majority party has a decisive influence on television, remarking that experience (both our own and abroad) indicates that at some point that influence can be cemented into place. Worst of all, once that happens, television and the person who controls it have every opportunity to help one another in preventing any change whatsoever.

The problem which Professor Hiber mentions pertains to literally everything which the Radicals and DEPOS have conceived in their bills. All the good intentions will depend, that is, on the one who has the majority in the Assembly, so that what could easily happen in the future is that one of the figures of Radio-TV Serbia, hated by the opposition, might become the "fair-minded ombudsman," and the programming or oversight committee of television would go on doing the same things as the oversight committee for monitoring the election.

The opposition, then, omitted to concern itself with the most important thing in this entire tale—establishing clear rules of the game that would not depend on the momentary

balance of power in the parliament and that would prevent all the well-known evils familiar to us, from bribery to blackmail.

Neither of the sponsors has any explanation for this omission other than haste. The main issues have been left for some time in the future, when presumably there would be less haste and less fear of the "TV Bastille." At the moment the most important thing for the opposition is to change at least the turnkey in the ill-famed fortress.

In Professor Hiber's opinion, there is a mistake even in that notion, since it could easily happen that the opposition's bill, if it should pass the Assembly, would be struck down in the Constitutional Court. "The constitution, which calls for a separation of powers, sees the Assembly concerning itself with general enactments, not individual enactments, while the DEPOS bill envisages a number of individual enactments through commissions that would concern themselves with particular matters, which is certainly unconstitutional."

The Ground in Between

Acknowledging that these bills nevertheless represent "transitional solutions," Dragor Hiber also said that the most important thing would be to take away from Radio-TV Serbia its undeserved title to the infrastructure (transmitters and frequencies—the Radical bill contains something like that) and then to compel it to concern itself with its own programming, in which it would be subject to strict rules.

The laws of the market (in obtaining frequencies) and those same rules of the game envisaged by law in creating programming that would apply to government television ought to apply to the other, nongovernmental, television stations, which on this occasion were not a concern of either the Radicals or DEPOS, which left them in some middle ground not regulated by anything, according to Professor Hiber. The Radicals, it is true, envisage certain rules for allocating and taking away radio frequencies, but even that concept breaks down as soon as one moves on to the parts of the bill concerned with government television. The essence of even their bill lies in minuscule limitation of the influence of the Socialists today—that is, in taking control tomorrow if they get in power.

Serbia Plans Massive Layoffs

94P20525C Ljubljana GOSPODARSKI VESTNIK in Slovene 10 Mar 94 p 71

[Article by Slobodan Djukic: "Drop the Hammer, Pick Up the Sickle"]

[Text] Niteks, a textile factory in Serbia, is prepared to pay its excess employees 36 months of wages to leave their jobs and return to the countryside or open a private business. Niteks has about 1,500 employees; some 500 of them are underemployed.

Approximately 1 million people, white collar and blue collar workers, are supposed to lose their jobs throughout Serbia soon. The new economic program foresees that about 200,000 of them will return to farms. Many other

Serbian companies are trying to convince their work forces, which migrated from the countryside to the cities, to exchange their hammers for a sickle. The management of the Smederevo ironworks, a huge investment, is trying to motivate its workers to cultivate edible forest plants. The Crvena Zastava automobile factory in Kragujevac is planning to open a farming center.

However, it seems that it will be difficult to persuade people to return to the countryside. The state program could be enforced only by using repressive measures and massive layoffs. It is questionable whether these people are really ready to return to the countryside; some of them have no place to which to return. People have migrated to the cities because they have found city life more comfortable, with more job and education opportunities. Now they feel shortchanged on all counts; they have lost their work, they are pressured to return to the village, they cannot send their children to school. It is hard to expect that all the problems will be solved with economic measures. Will the proponents of such a policy be forced to resort to violence, as was the case in China during the Cultural Revolution or as the Pol Pot regime [in Cambodia] did when it forcibly relocated the population, abolished the use of money, and established cooperatives?

Bank Loans to Enterprises Examined

94BA0211B Belgrade POLITIKA in Serbo-Croatian
3 Mar 94 p 13

[Article by Biserka Dumic: "Loans Only for 'Sound' Programs"]

[Text] The dinar has gotten to its feet, and now the second phase can begin—invigoration of production—which is the foundation of the stabilization program, Dr. Dragoslav Avramovic, professor, said recently. How many loans have the banks granted to a dead industry since introduction of the Avram, what problems are they encountering, and is there a chance of the "rusty wheel" starting up and gathering speed in the foreseeable future?

Under the new market-oriented conditions, one gets the impression, the banks are ready to extend loans exclusively to sound production. Production which will yield an assured profit, and they have no intention of using their money to revive losers. Meanwhile, the big question is how many producers will manage to obtain enough credit to get their machines going and at the same time sell their products.

For Zastava alone, one of our largest factories, for instance, it will take bank support amounting to at least 3 million German marks or new dinars per month, and that represents between 30 and 40 million super dinars annually. From what certain daily newspapers are writing, the announcements now coming from that giant are that this month "there will be nothing" coming from the assembly line for precisely that reason.

A Real Rate of Interest at Last

Unfortunately, there are quite a few giants like that in the country. Factories at Rakovica in Belgrade are waiting for

loans like a thirsty man waiting for water, but even if they get them, the question is who they will sell the tractors and other machinery to, so that they can repay the money. They cannot export them abroad, at least for the present, and the peasants are holding onto their money in order to buy petroleum products, seed, fertilizer....

To invigorate production in the large factories, there is no doubt, the government and the banks will need a great deal more money than they themselves have at this moment, and it is uncertain when the sanctions will be removed and when we will again get foreign loans. Nevertheless, commercial banks here have already begun to invest money in production. This is not enough for a beginning, but things have nevertheless begun to move.

Since early January the mixed PKB [Beograd Agroindustrial Combine] Bank has loaned about 9,000 billion old dinars and more than 700,000 new dinars to support production. Seventy percent of that credit was invested in agriculture, and the bank mainly enters into joint investments with creditors.

Nenad Urosevic, general director of the PKB Bank, who mentioned first of all that the banks must operate on a profit basis, but an honest profit, also says that a real rate of interest has finally been introduced for the first time and must be at least 0.1 percent above the rise of retail prices. Otherwise it is inflationary.

"It is not true that the banks are obstructing the program. So far the producers have been putting up for sale goods from inventory only to the extent that they could market them. Now they must count on a real rate of interest, since otherwise the program will not succeed," Mr. Urosevic warned.

He added that people are not coming to the bank for credit, but for a loan. The bank in turn is seeking security in the form of collateral, and it wants repayment of the principal and interest within the period called for in the contract. When things are set up like that, no one will be operating at a loss, and there will not be any inflation.

All Credits Are Short-Term

Union Bank has also begun to furnish credit to its customers, agricultural producers, although sizeable applications for credits are expected only in the months to come, when planting begins.

According to Milan Aleksic, director of funds and loans, 730,000 dinars have so far been invested in the fattening of baby beef, production of equipment for the food manufacturers, and the purchase of production supplies. Another 200,000 dinars have been supplied to agriculture through interbank credits, that is, not directly, and applications are being examined for 600,000 dinars in credit to finance the fattening of hogs, but also about half a million dinars for other types of production (wood manufacturing), and about 150,000 for fruit. In addition to all that, this bank is also furnishing customers guarantees so that they can import production supplies.

"All the credits are short-term, for one month with the option of extension at an interest rate margin of 1-4 percent

per annum. The price of our capital is perhaps high, since bank costs are immense," Mr. Aleksic said, adding that producers, those who have taken credits, have not complained about the rates of interest, since they have the kind of production that will bring a profit.

From 24 January to 1 March Agrobanka approved about 4,300,000 dinars for spring farmwork, and more than 2,000,000 have been used. Slightly more than 3,000,000 dinars in credit have been granted to animal husbandry, of which about 2,500,000 dinars have been used. All in all, this bank has supplied about 7,300,000 dinars in credit, and between 80 and 95 percent of this was for agriculture.

The Forgotten Cooperatives

"The amount of credit approved is far less than agriculture needs," says Stanko Bugarcic, assistant director of the dinar-loan sector of Agrobanka. Nevertheless, this bank expects to be able to furnish about 25,000,000 dinars for spring farmwork. Interest rates have been set at two levels: 12 percent for primary production and 14 percent for other production. Asked whether these are real rates of interest, Mr. Bugarcic replied: "They are high for the borrowers, but for us they are low, in view of the situation the bank is in, since capital has melted away."

The decision on mandatory guidance of bank loans (published in SLUZBENI LIST [OFFICIAL GAZETTE] on 15 February), which prescribes how the banks are to behave, calls for credits to be committed to production, but nowhere were the agricultural cooperatives mentioned. "We went to the NBJ [National Bank of Yugoslavia] and demanded that the cooperatives be treated like any other production firm, since between 80 and 95 percent of agriculture is based on the agricultural cooperatives," Mr. Bugarcic said.

Vojvodjanska Banka has also begun to grant credits in new dinars, mainly for agriculture. So far, according to Mirko Tisma, deputy general director of the main headquarters in Belgrade, more than 10,000,000 dinars have been invested in food production.

All in all, the commercial banks are ready to invest sound capital only in sound projects. The time of primary note issue is behind us, and therefore so is the credit financing of firms so that they can meet their payrolls.

New Antibiotics Factory Inaugurated

94P20500B Belgrade POLITIKA in Serbo-Croatian
2 Mar 94 p 14

[Article by J.D.-M.Z.: "Antibiotics Factory Opened"]

[Text] In the vicinity of the village of Dubovo in the Kovin municipality, at the very edge of the Deliblatska Pescara [Sands], in an ecologically sound atmosphere, a new antibiotics factory of the Hemaform Pharmaceutical Industry of Vrsac was opened today. Four million German marks have been invested in the factory's ultramodern equipment, not counting the cost of the basic adaptation and modification of the building which the Kovin municipality donated to Hemaform for this purpose.

Dr. Borivoje Antic, Serbian health minister, and Pavle Todorovic, Serbian minister for the protection of the environment, were present at the ceremony inaugurating the new factory in Dubovac.

Engineer Miodrag Babic, general director of Hemofarm, informed journalists that the factory will produce 100 million capsules or 3.8 million packages of high-quality antibiotics annually. Thanks to the most modern technology, 30 people will work here initially, in two shifts.

"Hemaform built this factory—just as it did the natural medicines factory on 12,500 square meters in Vrsac—under the difficult burden of international sanctions," Mr. Babic said.

Montenegro

Montenegrin Economy Termed 'Hopeless'

94P20505A Ljubljana GOSPODARSKI DNEVNIK in Slovene 3 Mar 94 p 28

[Unattributed article: "No Chance of Survival"]

[Text] A reporter for the Austrian economics journal INTERNATIONALE WIRTSCHAFT wrote in an article titled "Heroes Are Tired": Yugoslavia is committing slow suicide and Montenegro is dying with it. She describes the hopeless state of the Montenegrin economy. The author claims that, objectively speaking, the industry of the most loyal Serbian ally has no chance of survival following the dissolution of Yugoslavia. It not only lacks raw materials, it has been left without a market. The Montenegrin economy used to rest on three pillars—its main sources of foreign currency: production of aluminum, maritime transport, and tourism. Before the war in Bosnia, Montenegro's merchant marine earned \$150 million, as much as tourism. Sales of aluminum accounted for \$155 million. All three economic sectors are virtually in ruins today.

The Montenegrin economy did not fare badly at the end of the 1980's. The former Yugoslav republic produced 25 percent of Yugoslavia's quality steel and 50 percent of its aluminum. Of course, the aluminum combine in Podgorica as well as the iron works in Niksic have been operating at a loss in recent years. According to an assessment by an independent economist, Branko Vujosevic, they may be operating at only 20-percent capacity but, fearing labor unrest, the political leadership is afraid to close them.

The second pillar of the Montenegrin economy was the maritime industry. Montenegro had the largest concentration of ships per capita in Europe. Following the imposition of sanctions, most of them are now anchored. Tourism, which had the best chance of developing in Montenegro, has also been damaged by sanctions. Since 1991 there have been no foreign tourists, while before the war they accounted for 35 to 45 percents of all overnight guests. Montenegrins must now be content with Serbian and domestic guests. Macedonian tourists are counted as foreign guests although they do not bring foreign currency.

Since the introduction of UN sanctions against rump Yugoslavia, the Montenegrin food supply has depended entirely on Serbian good will. This was apparent last fall

when trucks loaded with needed foodstuffs were not allowed to cross the Serbian-Montenegrin border at Prije-polje. The Serbian authorities suddenly demanded special permits. This internal trade embargo against the small Serbian partner was meant to be a disciplinary measure to preclude any thought of independence.

Montenegro—like Serbia—has horribly high inflation, and humble protests [against sanctions] by the leadership that Montenegro is an innocent victim are to no avail. The only thing that is still adequate in Montenegro is the supply of electricity, but this is also supposed to change thanks to the rapprochement between Croats and Serbs. It is supposed to be exported to Croatia for foreign currency.

Instability, 'Panic' Over Dinar Value

94P20520A Zagreb VJESNIK in Serbo-Croatian
10 Mar 94 p 32

[Text] (HINA) Belgrade—The "super yugodinar" has begun to lose its glow. Alarming news has arrived from Montenegro that the exchange rate in transactions between banks and businesses is one German mark to 1.5 dinars.

Since mostly Serbian firms have been involved in grey hard currency transactions, panic has spread in Montenegro that large amounts of hard- currency would be taken out of the

country. Since the introduction of the new "yugodinar," the Albanians in Kosovo have disregarded the official exchange rate of one dinar to the German mark and demanded two to three dinars to one mark.

The spreading instability has raised the possibility of the beginning of an end to the economic stabilization program. Federal Prime Minister Radoje Kontic met hurriedly with the Serbian and Montenegrin prime ministers and Drago-slav Avramovic, architect of the program, who in the meantime had become governor of the National Bank. They have decided that the official exchange rate must be strictly enforced. They have also agreed that high prices for utilities and services present a threat to the anti-inflation measures and will therefore have to be reduced.

Avramovic has still faith that the new dinar, called the "avram," will maintain its value and that he will be able to resist the pressure to print more money. Some people suspect that the dinar has lost value because new money has been printed out of fear of strikes, including a strike by workers at an arms factory in Kragujevac. Street dealers, who for the time being are engaged in smuggling cigarettes, say that they will soon return to a more profitable business—buying and selling foreign currency in the black market.

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